





## EUROPEAN NEWS

## EEC sets new deadline for enlargement accord

BY QUENTIN PEEL IN BRUSSELS

SPAIN, PORTUGAL and the EEC member states are facing a hectic timetable over the next two months to complete negotiations on the enlargement of the Community, after the failure of their foreign ministers this week to make any appreciable progress on the outstanding issues.

The latest rounds of abortive talks in Brussels foundered on the continuing differences both within the EEC and with the applicant states on agricultural trade, fisheries, and proposed restrictions on labour mobility affecting Portuguese workers.

Sig Giulio Andreotti, Italy's Foreign Minister and president of the EEC Foreign Ministers' Council, insisted, however, that all were agreed on the "absolute necessity" of completing the talks before the European summit meeting at the end of March.

The European Commission and national officials based in Brussels have just three weeks to produce a Community consensus on the outstanding issues before the

next Council of Ministers meeting. A Commission paper has been promised for the end of next week.

Sig Andreotti said the ministers might decide to extend their February meeting to three days in order to make progress. He also suggested an extra council meeting in early March, before the regular meeting in the middle of the month.

"With three such meetings it must be possible to reach a conclusion," he said.

"We have decided that negotiations both with Spain and Portugal must be completed before the end of the March European Council. It means a great effort is going to have to be made, but it is feasible."

Sir Geoffrey Howe, the British Foreign Secretary, said too much detail in the negotiations had been left for the ministers to decide, making it impossible to reach conclusions in the time available.

The ministers have already missed two self-imposed deadlines for finalising the terms of Spanish and Portuguese membership — by



Sig Giulio Andreotti

the end of last September, and then by the end of last year.

If they fail to agree all the outstanding questions by the end of March, however, the 12 national parliaments are not expected to be able to ratify the accession treaties in time for enlargement to take place on January 1, 1986, the promised date.

## FT COMMERCIAL LAW REPORT

## Government undervaluation to ICI rivals not an 'aid'

REGINA V ATTORNEY GENERAL EX PARTE ICI

Queen's Bench Division: Mr Justice Woolf: January 25 1985

A FISCAL advantage arising out of statutory provisions created for the purpose of providing assistance to certain oil undertakings is not an "aid" requiring EEC approval if it results from an incorrect valuation of feedstock by the Revenue; but another undertaking will have the necessary standing to proceed against the Government in the UK if it can establish that the approach to valuation was wrong and affected its interests.

Mr Justice Woolf so held when giving judgment for Imperial Chemical Industries (ICI) on two issues, and for the Government on one issue, in ICI's application for judicial review seeking six declarations that the Government was acting or proposing to act unlawfully by enacting, or proposing to give effect to, section 134 and Schedule 18 of the Finance Act 1982.

Article 92 of the European Economic Community (EEC) Treaty provides: "(1) Save as otherwise provided in this treaty, any aid granted by a member state... which... threatens to distort competition by favouring certain undertakings... shall... be incompatible with the common market."

Article 93: "(1) The Commission shall... keep under constant review all systems of aid... (2) If the Commission finds that aid... is not compatible with the common market... it shall... prohibit or alter such aid... (3) The Commission shall be informed... of any plans to grant or alter aid. If it considers that any such plan is not compatible with the common market... it shall... initiate the procedure provided for in paragraph 2. The member state concerned shall not put its proposed measures into effect until this procedure has resulted in a final decision."

HIS LORDSHIP said that at Mossburn on the Firth of Forth, Esso was building a large ethylene plant which, when operational, would be in competition with ICI's facilities at Wilton, and with BP's plant at Grangemouth. The costs of the venture were being shared between Esso and Shell, who would share the output. There were no other UK ethylene producers.

Ethylene was the raw material for a wide range of petrochemical products. It could be manufactured from various feedstocks. ICI at Wilton used naphtha, but it could also be manufactured using ethane. An ethane cracker required fewer furnaces than naphtha, and had a natural cost advantage.

For some years, the Western European ethylene market had been depressed and was still suffering from over-capacity. The problem would persist into the 1990s. ICI was naturally most concerned about the consequences of Mossburn coming on stream.

Press reports made it clear that by 1981 Esso and Shell were not prepared to go on with the Mossburn cracker without financial assistance from the Government. ICI feared that it would offer to subsidise Mossburn.

In an attempt to prevent that, ICI had a series of meetings with the Government at the very highest level. It was of the view, however, that the discussions had not influenced the result. It considered that Esso had received some form of assurance that a sufficiently low inter-affiliate transfer price level had been accepted for taxation purposes to make it worthwhile for the Mossburn project to proceed. Also, it alleged that the Government had a similar understanding with BP so

that a threat of closure at Grangemouth was lifted.

The means by which the Government was proposing to fulfil its commitment to the oil companies was, so ICI contended, through section 134 of and Schedule 18 to the Finance Act 1982. It asserted that the Act required ethane used at Mossburn and Grangemouth to be undervalued for petroleum revenue tax purposes. The undervaluation would result in less tax being paid, because the higher the value the larger the profit.

The Oil Taxation Act 1975 had introduced petroleum revenue tax. Section 2 set out how the tax was to be computed, making a distinction between "arms-length" and non "arms-length" transactions.

One condition which must be satisfied to bring a transaction within the definition of "arms-length" in paragraph 1 of Schedule 3 to the Act was that the terms of the sale should not be affected by any commercial relationship between seller and buyer, other than that created by the contract itself.

The market value under the Act was the price at which the oil could have been sold to a willing buyer at the relevant time in a sale at arms-length under certain conditions. Section 134 of the Finance Act 1982, which applied to non arms-length contracts, contained alternative provisions for calculating petroleum revenue tax. The taxpayer could make an election the effect of which was that the value of ethane was determined in accordance with a formula specified in the election. The nature of the election which could be made was strictly controlled by Schedule 18 to the Act and the Inland Revenue was required to reject it unless certain criteria were satisfied.

The difficulty over valuation arose because feedstock was not being supplied by Shell/Esso and BP at Mossburn and Grangemouth to an independent company by arms-length transactions. They would be inter-affiliate transactions. ICI was the only UK ethylene producer unable to take advantage of the new tax regime.

In its application for judicial review, ICI sought to establish that the Government, by enacting section 134 and Schedule 18, was proposing to act unlawfully. It contended inter alia that the Government's action contravened article 93(3) of the EEC Treaty. The issues could be divided into three heads: Community law, domestic law and *locus standi* [right to be heard in proceedings].

**Community law.** The question was whether the 1982 Act constituted an "aid" under articles 92 and 93 of the treaty. Mr Alexander QC for ICI submitted that "aid" had a wider meaning than "subsidy", and included any form of assistance or advantage given by a member state to an undertaking, which would not be available in the ordinary course.

In *Steenkolennijnen* [1961] ECR 119 the European Court said that "the concept of aid is wider than that of a subsidy because it embraces not only positive benefits... but also interventions which, in various forms, mitigate the charges which are normally included in the budget of an undertaking..." See also *Italian Government v Commission* [1974] ECR 709.

It was clear that a fiscal measure such as the 1982 Act could amount to an aid. Equally it was clear and accepted by ICI that if legislation provided for a valuation which reflected the current arms-length valuation, such a provision would not normally amount to an aid. A valuation on that basis did not confer any benefit and was in the "normal course".

In practice the 1982 Act did give Shell/Esso and BP options which were not otherwise available to those liable to petroleum revenue tax and which were introduced with a view to giving them assistance. However, that did not mean that the Act necessarily created an aid.

So far as the supply of ethane for petrochemical purposes was concerned, the 1982 method of valuation was much more likely to reflect what would happen if there were to be an arms-length transaction than the method under the 1975 Act. The assistance provided by the 1982 Act was therefore justifiable.

As was the case under the 1975 Act, the 1982 Act required a proper valuation to be made and in the ordinary way that should not result in an unjustifiably low valuation. Inland Revenue officials would not deliberately abuse their powers in applying the legislation. If they accepted a price formula which produced too low a value, such misapplication would be made in good faith and without the intention to grant aid.

If the Inland Revenue were to benefit the oil companies by adopting a wrong valuation, that could not be remedied by reliance on Article 93 (3) because no aid would be involved. However, had Article 93 (3) been infringed in a manner which gave ICI rights under the directly applicable final sentence, it would have had *locus standi*.

**Domestic law.** ICI's primary contention was that the Inland Revenue was proposing to adopt a valuation of ethane for the purposes of the 1982 Act which was unreasonable low.

The parties were agreed that because of the absence of comparable sales, it was necessary to take into account evidence of sales at arms-length of methane and ethane for use as fuel.

It was agreed that an arms-length price was the best price, which an unrelated seller could obtain from a willing buyer. On that approach, ICI's valuation was 26 pence per therm, while the Government's was 10 pence a therm if firm, and 7 pence if variable.

The Government's evidence was not correct in so far as it indicated support for a 1982 price of approximately 10 pence a therm for a sale at arms-length. It would be unreasonable for the Inland Revenue to adopt a valuation of 10 pence based on that part of its evidence. It was below the price which, for the relevant quantity of ethane and for the period under consideration, would attract other users. They would be prepared to pay at least 15 pence.

**Locus standi.** It was made clear in *Inland Revenue Commissioners v National Federation of Self-employed* [1982] AC 617, that normally a taxpayer was not entitled to seek judicial review in relation to another taxpayer's affairs.

ICI did, however, have the necessary standing. The whole history of the negotiations between it and the Government before implementing of the 1982 Act underlined that both were well aware of the effect the special provisions could have on ICI.

His interests related to the question of valuation under the Act, the very matter which it had succeeded in establishing was not properly considered by the Inland Revenue. If those interests were being adversely affected by a wrong approach to valuation, its only possible remedy was judicial review.

For ICI: Robert Alexander QC, David Vaughan QC and Gerald Barling (VO White). For the Government: Samuel Stammer QC, Francis Jacobs QC and John Mummery (Treasury Solicitor).

By Rachel Davies

Barrister

## W. Europe to discuss joint space projects

By Peter Marsh in London

MINISTERS from 11 West European nations meet in Rome today and tomorrow to decide on the framework for joint efforts in space technology until the end of the century.

At the top of the agenda will be discussion on the part Western Europe should play in the U.S.'s project to build a manned space station by the early 1990s.

The gathering will also consider a set of proposals in satellite and rocket technology which would increase Western Europe's annual budget for co-operative projects in space by 70 per cent in the next five years from its current level of \$740m.

This week's meeting is under the auspices of the 11-nation European Space Agency (ESA), a Paris-based co-ordinating body set up in 1975 which is in charge of Western Europe's joint space programmes.

The agency receives its funds directly from governments, with France, West Germany, Britain and Italy being the biggest paymasters. The cash is spent largely in Western Europe's three research centres in Holland, Italy and West Germany.

ESA officials will put before the gathering a series of ambitious proposals aimed at strengthening Western Europe's role in key areas of space technology. The officials want the ministers to ratify the broad thrusts of these projects — though without committing the individual governments to specific sums of money. The proposals include:

● Joining the U.S. effort to build its manned space station. Western Europe's contribution would be a module called Columbus that plugs into the core of the U.S. orbiting base, to which President Reagan has committed \$80m. The Columbus project, in which West Germany and Italy would play the leading role, would cost \$20m until 1985. The module would contain laboratories for work in zero gravity such as materials processing. Britain could play a supporting role in building a free-flying platform — to carry cameras for observation of the earth — that could be part of Columbus.

● Further development of the Ariane rocket on which Western Europe has already spent about \$750m over the past decade. France, which has led the Ariane project to date, would put up the lion's share of the \$20m the new project would cost. Under the proposals European engineers would build Ariane-3, a new, heavy duty form of the existing Ariane-2 rocket. It would include a powerful cryogenic engine called HM-60 to give extra thrust.

● New efforts in telecommunications and earth-orbiting satellites. Under discussion will be plans to spend \$1.7bn and \$1.5bn to develop two programmes. ESA would develop new forms of telecommunications satellite — for instance those with their own computer processors so they could act as telephone exchanges in the sky capable of sending signals not only to ground stations but other satellites.

In observation satellites the agency wants to develop spacecraft with new sensors to take detailed pictures of the earth and oceans. The pictures can be used, for instance, for studies of crop growth or to monitor fish breeding areas.

● An increased scientific programme. ESA officials want approval for extra cash for astronomy satellites and probes that would fly to remote parts of the solar system. The programme would cost \$1.6bn over 10 years. The most exciting mission would be a remote-controlled trip to the asteroids — a belt of planetary debris between Mars and Jupiter — which would return rock from the asteroids to Earth for analysis.

● Extra cash for technical work in low-gravity laboratories. The agency wants to spend about \$200m on experiments in, for example, biological studies in space laboratories such as the European-based Space Shuttle. The latter is a big commitment. The U.S. space shuttle takes in to orbit for up to 10 days at a time. So far it has made one flight, with three more due this year.

● Work to provide a series of structure to support Columbus. In what ESA planners call the development of "in orbit infrastructure", the agency would spend \$1bn over 10 years on extending Columbus, for instance to ensure that it could stay in space independently of the U.S. space station.

Part of the cash could be spent on development of Hermes, a miniaturised version of the U.S. space shuttle which could carry people and materials between future space complexes and the ground. France, which has proposed Hermes, is eager to see an early start on the development. Other countries think that the project is not immediately essential and could push up overall costs unacceptably.

Hanging over the meeting will be the question of participation in the U.S. space station. Proponents of collaboration argue that if Western Europe fails to become involved, it could miss out in novel areas of technology that are bound to be important early in the next century.

UK space centre, Page 6

## WASHINGTON'S RIFT WITH MADRID OVER HI-TECH RE-EXPORTS

## U.S. seeks to close Spanish door

BY DAVID WHITE IN MADRID

THE U.S.'s anxiety over allowing high technology industries to set up in Spain stems from the fact that Spain is virtually alone in the Western world in being legally and technically able to re-export sensitive products to the Eastern bloc.

Spain which joined Nato in 1982 and which is due to hold a referendum on membership next year is the only Nato country apart from Iceland not to belong to CoCom, the co-ordinating committee of Western countries including Japan, which vets sales to eastern bloc countries. Most other Western countries have signed bilateral accords.

Spain is alone with Andorra, Liechtenstein and San Marino among Western European states not to be covered by either type

agreement. The U.S. has recorded numerous instances of what it regards as dual-use technology reaching East-bloc countries via Spain since 1979. Between 10 and 12 Spanish companies are understood to be causing concern. Most are connected to the blacklisted company Sain S.A.

Sain is alleged to have secured licences to import advanced technology items through a variety of subsidiary companies set up in Spain and in France and to have re-sold these items, mainly to Bulgaria.

Four of these companies including Sain itself are subject to U.S. "denial orders," as are companies of the Barcelona-based Piher electronics group, involved several years ago in a deal to set up a semiconductor

manufacturing plant in Cuba. The semiconductor, ostensibly for use in consumer products, were regarded at the time by the U.S. as "fairly sensitive." The company is understood to have been seeking its removal from the blacklist.

The U.S. is anxious to reinforce controls in order to maintain a "qualitative edge" over the Soviet bloc in arms and technology. The "denial orders" concept covers items which may have civilian applications in the West but which are considered liable to have military applications in the East, where they can bring about short-cuts in research and development.

Both the kind of microchip planned in the AT & T venture and the optical fibres which

could be made by Corning Glass are covered in CoCom's agreed list of "sensitive" items.

Spain has in the past offered ad hoc guarantees on final destinations in specific instances, but the U.S. insists on an overall agreement. At the centre of the argument is the question of whether the authorisation requirement on re-sale of equipment and technology should be extended to sales of the end-product.

Spanish Foreign Ministry officials describe the U.S. concern as "exaggerated," arguing that genuinely military exports are closely controlled. The U.S. pressure is seen in some Spanish circles as an attempt to restrict Spain's commercial ties with Cuba.

## Vienna coalition crisis averted as Defence Minister keeps job

BY PATRICK BLUM IN VIENNA

DR FRED SINOWATZ, the Austrian Chancellor, temporarily defused the crisis that threatened the future of his Government by deciding yesterday to keep on Dr Friedhelm Frischenschlager, his Defence Minister.

Dr Frischenschlager has been at the centre of a row for his actions in greeting a convicted war criminal and former SS officer on his release from an Italian jail last week.

After a lengthy Cabinet meeting yesterday morning, a tired Dr Sinowatz said he was satisfied with Dr Frischenschlager's explanations. The Defence Minister had apologised for his actions and would remain in his job.

The previous day, Dr Norbert Steger, the Vice-Chancellor and leader of the small right-wing Freedom Party, of which the Defence Minister is a member, had threatened to

bring down the Government by resigning along with all his Freedom Party colleagues if Dr Frischenschlager was forced to quit.

Dr Sinowatz read out a statement from Dr Frischenschlager, in which the Defence Minister admitted that he had made a serious error. "I am very sorry for my false estimation of the situation, and I can only regret it before you, Herr Chancellor, and the public," he said. "There was nothing further from my mind than to give this the character of an official reception or military welcome," he added.

He said he had acted on humanitarian grounds and reassured the Chancellor that he was "guided in his political behaviour by the principles on which our democratic republic was founded." Dr Sinowatz said that by this statement Dr Frischenschlager's

resignation was no longer a question.

In reply to a question suggesting that his hand had been forced by Dr Steger's threat to pull out of the Government, Dr Sinowatz said: "No, it was not the threat to leave that brought this about, but Dr Frischenschlager's statement." He said that the Defence Minister had done "an excellent job" and that the whole Government recognised the excellent work done by the coalition. "That was the decisive factor," he said.

However, the row is not yet over. The Government will now have to face a no-confidence vote in Parliament on Friday. Many socialists were clearly angered by the Defence Minister's actions and the party could find that several of its members vote against the Government or abstain.

## New phase for security talks

BY DAVID BROWN IN STOCKHOLM

THE 35-NATION European Security Conference entered an important new phase at the opening of its fifth session in Stockholm yesterday when the Soviet Union introduced a draft treaty on the non-use of military force.

Detailed counter-proposals are expected from the Nato delegations as early as this week. The conference is now expected to break into the first in-depth negotiations since the talks began a year ago.

Mr Oleg Grinevsky, the Soviet delegate, said he had received instructions from Moscow "to reach an agreement in the very near future." He said the recent improvement in U.S.-Soviet relations has "given an impetus to constructive discussions."

Mr James Goodby, the U.S. envoy, reiterated strong Nato objections to many of the latest Soviet ideas, but sounded a more optimistic note than he had earlier. He said the conference had taken an important step away from polemics and towards "the real pick-and-shovel work."

It might be possible to begin drafting a concluding document as early as the seventh session, which begins this autumn, he said.

The Security Conference has steadily gained momentum since last December, when Nato and the Warsaw Pact broke an 11-month deadlock and agreed to set up "working committees" to consider various "confidence-building measures" aimed at reducing the risk of surprise attack or war in Europe.

Six proposals have now been tabled, including one from the nine neutral and non-aligned states, which played a key role in the formation of working groups. The concluding document will have to be approved by all 35 participating states.

The two major power blocs are still far apart, but there have been signs of movement. The Soviets continue to stress declaratory measures, such as a renunciation of the first-use of nuclear weapons.

The Western allies have refused to discuss a ban on the first use of nuclear weapons. However, Mr Goodby suggested that the principle of non-use of force, which the U.S. has indicated it might be prepared to accept, "could apply to any kind of weapon."

However, Nato will press for new confidence-building measures, which go "significantly beyond the 1975 Helsinki final act," the envoy stressed. These include earlier Western proposals to expand advance notification and exchange of information on military movements, the mandatory presence of observers and adequate means for verification.

## W. German carmakers plead for end to pollution confusion

BY JOHN DAVIES IN FRANKFURT

THE WEST GERMAN car industry, which has seen a sharp drop in domestic orders during the last few months, has appealed for an end to wrangling and confusion over tighter environmental rules.

Industry executives claim that uncertainty about the Bonn Government's plans for stricter emission controls has caused motorists to delay purchases of 400,000 cars, leading to a "log-jam" of pent-up demand.

Herr Hans-Erdmann Schoenbeck, president of the Automobile Industry Association (VDA), said everything should be done to remove motorists' fears that they may suffer a handicap in future through buying a car now. There must also be an end to attempts to give motorists "pangs of conscience" about driving by blaming them for environmental pollution.

With motorists mulling about what car to buy, the West German car industry has seen its domestic orders in the last three months of last year drop 20 per cent below the level a year ago, according to the VDA.

Domestic orders in December were as much as 25 per cent down on a year earlier, and the industry has seen no sign of recovery.

The Government decided in September to make tighter emission controls compulsory for new cars from 1988 (and for bigger cars from 1985), and to encourage earlier use of "environment-friendly" cars.

The decision came after lengthy argument which forced Herr Friedrich Zimmermann, the Interior Minister, to abandon his original target date of 1986. There are still question marks over the issue.

The Government this month has tried to remove some uncertainty by agreeing a scale of vehicle tax to give incentives for use of "environment-friendly" cars.

Herr Zimmermann has also arranged talks this week with Sig Umberto Agnelli, the Fiat chief, as part of a campaign to persuade Italy and France to go along with West Germany's anti-pollution plans.

Questioned about union

claims, that there was a danger of short-time working in the industry soon, Herr Schoenbeck said the position varied from one company to another. "If one factory sees the need to introduce short-time working because orders have fallen, that doesn't mean that short-time will spread like wildfire to all factories," he said.

Of the main manufacturers in West Germany, Daimler-Benz is known to have been little affected by the latest industry setback, but the trend is being viewed with concern by other companies, including Volkswagen, Ford and Opel.

Predictions for the West German car market this year show wide swings, with the industry seeing a market "potential" of 2.5m cars and a horror scenario of sales falling 600,000 short of this.

Car sales in West Germany fell 1.4 per cent to 2.39m last year. The industry blames most of the setback on environmental controversy, but concedes that it was also due to lack of supplies through the strike last May and June.

## Friderichs faces tax charge

BY RUPERT CORNWELL IN BONN

HERR HANS FRIDERICH, the former Free Democrat (FDP) Economics Minister and chief executive of Dresdner Bank, is facing an extra charge of tax evasion, in connection with West Germany's illicit party political donations scandal.

He thus joins his successor as Economics Minister and fellow FDP member, Count Otto Lambsdorff, in being accused of tax evasion as well as being sent for trial for corruption in the so-called "Flick affair." It

is alleged that he took bribes from the giant industrial conglomerate in return for helping authorise DM 800m (\$228m) tax breaks for Flick in the late 1970s and early 1980s.

That trial, in which the late defendant is Herr Eberhard von Brauchitsch, the former senior Flick executive, was to have begun here on January 10. But it was postponed, much to the anger of the defence, in order to allow time for a decision on whether the tax evasion case should be combined

with the bribery trial.

No new date has been set for the court proceedings. But clearly, yesterday's development makes it still more likely that the trial will not get under way until late spring or early summer.

Herr Friderichs, meanwhile, has already stepped aside temporarily as chief executive of the Dresdner Bank, the second largest in West Germany, to allow him to concentrate on his defence, whenever he finally comes to court.

## Demand for death penalty at Polish trial

By Christopher Bohlen in Warsaw

A POLISH state prosecutor yesterday demanded the death penalty for one security policeman, and 25 years prison for three others, accused of murdering St. Jersy Pielusko, the presidential priest.

At the same time, however, Mr Leszek Pietrasinski launched an attack on the murdered priest in which he suggested that Fr. Pielusko's "extremism" towards government policy was comparable to that of the defendants and had led to the crime being committed.

His attack seems designed to warn the Roman Catholic Church that the Government will keep up its pressure on radical priests to tone down their activities and that the trial does not signify any liberalisation towards the church.

Former Captain Gregorz Piotrowski, leader of the group accused of carrying out the murder, sat calmly throughout the more than four hours of the prosecution's speeches, his face at times flushing and his turning pale. The stress showed, too, as he clenched his fists when he heard the prosecutor, who had earlier called him a "cold and cruel criminal," demand that he be executed.

Mr Adam Piotrowski, Capt. Piotrowski's immediate superior in the Interior Ministry who has denied inspiring the murder and then helping cover it up, listened impassively to the demand that he serve 25 years in prison. The prosecution claimed the murder would have been impossible without his aid.

The two other defendants, former Lt. Waldemar Chmielewski and Leszek Pelals, sat with heads lowered to hear that they had been "duped" by Capt. Piotrowski into going on the kidnap mission, but still deserved 25 years in jail.

The court has still to hear speeches by civil rights lawyers representing the Piotrowski family, who can be expected to react to the prosecutor's attack on the dead priest and the church. Defence counsel and the defendants themselves also still have to speak.

The prosecution charged that the murder was premeditated and directed against the interest of the state and the policies of General Wojciech Jaruzelski, the Communist party leader, as well as more directly against General Czeslaw Kiszczak, the Interior Minister.

Mr Piotrowski said that no one had been found who might have encouraged Col. Piotrowski to help the alleged conspirators but implied strongly that "the secret services of the capitalist countries" might have blackmailed Capt. Piotrowski into plunging ahead with his "political provocation." He stressed, however, that no more senior member of the Interior Ministry was involved.

In his 45-minute outburst against the church, Mr Pietrasinski claimed that Fr. Pielusko's "extremist activities gave birth to the extremism."

## Finns repeat record surplus

By Lance Keyworth in Helsinki

FINLAND last year had a record visible trade surplus and a balanced current account. According to Mr Pekka Vennamo, deputy Minister of Finance, the economic trend will continue to be relatively favourable in 1985.

Last year's foreign trade surplus, the first for seven years, totalled Fmk2,370m (\$840m), due mostly to the 37 per cent growth of Western exports. Those to the East bloc fell by 13 per cent.

The forest products industry accounted for 37.5 per cent of the export total of Fmk2,370m. The metal and engineering sector 35.5 per cent, and the chemicals sector 19 per cent. The Soviet Union kept its place as the principal buyer of Finnish goods, followed by Sweden and Britain.

On the import side, the ranking order was the Soviet Union, West Germany, Sweden and Britain.



## OVERSEAS NEWS

## South Africa curbs dollar dealing and bank lending

BY JIM JONES IN JOHANNESBURG

**SOUTH AFRICA** has introduced significantly tighter controls over foreign exchange markets and bank lending. Mr. Hendrik du Plessis, the Finance Minister, told Parliament in Cape Town yesterday.

The intention is to limit speculative trading which the authorities have blamed for much of the rand's recent decline and its wide fluctuations in foreign exchange markets.

The country's gold mines, which in 1984 produced 21.9m ounces of gold worth almost \$6.6bn, at current prices, are to be restricted in their foreign exchange activities by being paid half of their sales revenue in rand by the Reserve Bank.

The mines, which have to deliver all their gold to the Reserve Bank, were paid entirely in rand until February 1983 when, in a move aimed at broadening South Africa's foreign exchange market, the Reserve Bank began paying in dollars which had to be converted into rand within one week of receipt.

This allowed the mines to take advantage of short-term exchange rate fluctuations. Yesterday's change in payment arrangements will give the Reserve Bank greater control over the flow of dollars, Mr. du Plessis said.

In a parallel move, the Reserve Bank's rediscunt procedure has been tightened to restrict commercial bank lending. In future commercial banks which exceed lending limits will not be accommodated by the discount houses but will have to deal directly with the

## Attacks mount on Israelis as pullout draws near

BY DAVID LEMMON IN TEL AVIV

**THE ISRAELI** preparations for the first stage of the withdrawal of its forces from Lebanon has moved into high gear accompanied by intensified guerrilla attacks on the occupation forces and their allies.

Israeli troops have been harassed as they hauled equipment southwards, with guerrilla attacks reaching a peak of nine on Monday which left five Israeli soldiers wounded.

There have been repeated rocket attacks on positions of the Israeli army and the Israeli-backed South Lebanon Army militia. In addition, the forces moving on various roads have been subjected to bomb attacks and land mines.

According to Israeli officers, most of the attacks are being carried out by local Shi'ite Moslem groups, but they also noted that there has been increased guerrilla activity by Palestinian fighters.

Despite the harassment, Israel has completed the

## Share prices fall sharply

**THE PRICES** of hundreds of shares on the Tel Aviv Stock Exchange fell sharply yesterday as a new selling wave swamped the market for the second day running in the wake of reports that one of the big traders had run into financial trouble and was being forced to dump his shares, David Lemmon reports.

This is the worst stock market fall since the massive crash in 1983, and there are fears that

when selling price limits come off many shares today there will be a further tidal wave of selling.

Some of the sales were attributed to profit-taking following a sharp rise in prices since the beginning of January, by as much as 30 per cent in many cases. However, much more of the selling was attributed to panic dumping shares.

## Journalist's murder strains U.S.-Taiwan relations

BY BOB KING IN TAIPEI



President Chiang . . . Government reforms praised

**WHO KILLED** Henry Liu, and why? The question has been haunting Taiwan since the 32-year-old Chinese-American journalist, author, and possible intelligence operative was gunned down at his home in Daly City, California.

His killers were allegedly members of the Taiwan underworld who had connections with Taiwan security officers and disclosures in the case so far have severely strained Taiwan's relations with the U.S., its strongest supporter. Many fear the incident could halt U.S. weapons sales to the island, as well as weaken American support in general.

"Complete disclosure (of motives and the security connections) and visible reform of the security agencies is the only thing that will make this problem go away," said one observer. "It could turn into a total debacle if Taiwan tries to cover up."

Two underworld figures arrested during a nationwide crackdown on organised crime have confessed to the murder, but have also implicated officials

of a top security agency. Chen Chi Li, the head of the "Bamboo Union," a gang estimated to have more than 10,000 members here and abroad, said that he had informed the officials of his plan to kill "someone who has done a lot of harm to the country."

Mr. Chen implied that he murdered Mr. Liu, who some years earlier had published a biography critical of Taiwan President Chiang Ching-kuo, to curry favour in the hope of saving himself from arrest in the planned crackdown on organised crime.

Whether or not officials of the security agency knew of the gang's plan to murder Mr. Liu is a matter of debate. The U.S. magazine *Newsweek* says that Mr. Liu had been an FBI informant. Taiwan offered the American investigators evidence that it said showed Mr. Liu had acted as its agent during several trips to China.

Other reports hinted he may have also spied on Taiwan for China.

Some speculate that if Mr. Liu had indeed been an FBI informant, he may have been feeding the Bureau information on the expansion of Taiwanese gangs overseas, particularly in the U.S. If so, then the Bamboo Union's motive for killing him is clear.

Still others suspect he may have been preparing another book in which revelations about the government were embarrassing or compromising for Taiwan Government officials, would have been published.

Thus, they see the security agency's hand in the plot. Whatever the motive, the killing has tarnished Taiwan's reputation abroad, ironically at a time when reforms throughout the Government were drawing praise from other nations.

Changes in regulations and laws covering counterfeiting, accounting practices, and corporate financial disclosures have recently either been put on the books or are being processed. A new Cabinet, inaugurated last summer, was generally regarded as capable and reform-minded.

Liberalisation of the tariff structure and an ending of certain import restrictions had been set as a top priority for the next two years. The *Opposition Press*, long beset by arbitrary censorship and confiscation of offending issues, had over past months been especially vocal in its criticisms, with few reprisals.

Mr. Liu's murder may have accelerated the schedule for the long-planned crackdown on organised crime. To date, that crackdown has netted over 1,000 suspects, many of them major underworld figures.

The growing power of the gangs, reflected in the increasing number of violent crimes and the use of handguns, forced the Government to move. It is now said to be planning a second phase under which police officers suspected of corruption or abuse of power, would be arrested.

The murder has obscured the full extent of this progress. nationally, despite directives from President Chiang that the guilty parties be found and punished, whatever their ranks. For instance, U.S. Congressman

Stephen Solarz has announced he plans hearings to determine whether the murder was "part of a consistent pattern of intimidation and harassment of persons abroad."

If Congress were to conclude that such a pattern exists, it would mean an automatic ending of U.S. arms sales to Taiwan under American law and, by extension, a perceptible lessening of U.S. support for this nation, which China has regarded for decades as an errant province of the People's Republic.

Any perceived attempt at a cover-up of possible involvement by Government officials in the murder would give Taiwan's critics the ammunition they need to affect arms sales, observers think. But the incident may also offer Taiwan a chance to gain stature.

"If they went the full route on disclosure (of involvement) and pursued the case to the fullest extent possible, it could be seen by the media as a sign of increasing democracy here, and an indication that liberalisation will come faster," said one observer.

## China rules out end to Soviet rift

By Mark Baker in Peking

**CHINA** has ruled out the possibility of an early end to its 20-year split with the Soviet Communist Party.

Despite the success of a fence-mending visit to Peking last month by Mr. Ivan Arkhipov, the deputy Soviet prime minister, an official of the Chinese Communist Party said plainly today that restoration of inter-party relations was not under consideration.

"The question of the relations between our two parties is not under consideration now," said Wu Xintang, spokesman for the International Liaison Department of the Chinese Party.

Wu also spurned Soviet-backed proposals for a world congress of Communist parties.

He said such a conference—plans for which have been promoted recently by both Czechoslovakia and the Soviet Union—would only damage relations between Communist states and would not assist world peace.

"The Communist Party of China has always stood and still stands for free exchanges of views on issues of common concern among Communists of the world on the basis of independence, complete equality, mutual respect and non-interference in each others' internal affairs," he said.

Wu's remarks are the firmest indication from the Chinese side in recent years of the continuing rift in relations with the Soviet party. Party relations were severed in the early 1960s when China and the Soviet Union fell out over a series of bitter ideological and territorial disputes.

Relations between the two governments have improved significantly recently. Mr. Arkhipov was the most senior Soviet official to tour China since the split and Li Peng, the Chinese vice premier, is expected to go to Moscow in April to sign a four-year trade agreement.

## Nakasone set to boost defence

BY JUREK MARTIN IN TOKYO

**IT HAS** become increasingly apparent this week that Mr. Yasuhiro Nakasone, the Japanese Prime Minister, has decided to allow defence spending to exceed 1 per cent of the Japanese gross national product.

This is the almost universal interpretation of his response to questions over the past two days during the parliamentary session.

The Prime Minister, typically, did not in so many words commit himself formally to abandoning the guideline laid down by the Miki Cabinet in 1976, which pledged to keep defence spending below the 1 per cent

ceiling "for the time being."

But he did say that a change in the ceiling would be a matter for consideration by the Cabinet and the National Defence Council, a remark broadly seen as indicating his willingness so to do.

On a technicality, this may not occur until the summer, when the National Personnel Agency is due to issue its recommendations on the next military pay increase. Unless the Japanese economy continues to grow at an unforeseen rate, even a modest pay raise would bring the defence budget over 1 per cent of GNP.

Government officials, though not opposition political parties, have long contended that serious debate on Japan's defence posture has been hampered by its concentration on numbers. Mr. Nakasone, who, by political standards, is something of a defence specialist, has long wanted to break these bounds.

But officials also concede that in this instance it has been the absence of much pressure from the U.S. for a greater Japanese military effort that has made easier selling the proposition to the Japanese political audience.

## Lange sticks to N-ship ban

BY DAI HAYWARD IN WELLINGTON

**NEW ZEALAND'S** Prime Minister David Lange is adamant his country will stick to its ban on nuclear ships or weapons—despite increasing pressure on his Government and what can almost be described as mounting hysteria in the Australian media.

"We will not buckle under pressure. As long as I am Prime Minister there will be no nuclear weapons in New Zealand," he said.

However there are continuing efforts to find a way out of what appears to be an increasing impasse over the American request to send a warship in March.

Washington has now put forward some options on the visit in an effort to accommodate New Zealand's anti-nuclear stand. However, it has stopped short of agreeing to reveal whether any particular ship is nuclear armed.

In addition to a letter from Mr. Bob Hawke, the Australian Prime Minister, Mr. Lange has also received a personal letter from Mr. George Shultz, U.S. Secretary of State. Mr. Lange confirms that Mr. Shultz took a much firmer line and repeated the need for American warships to have access to New Zealand ports as part of the ANZUS defence treaty alliance.

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## National & Provincial Building Society

### Notice to Existing and Prospective Investors and Borrowers.

#### Notice to Investors

National & Provincial Building Society hereby gives notice that the rates of interest paid in all departments (except the Save As You Earn scheme) will be increased by 0.75% p.a. with effect from 1st February 1985.

#### Notice to Existing and Prospective Borrowers

National & Provincial Building Society hereby gives notice that the rates of interest applicable to existing annual rent mortgage accounts and outstanding offers of advance are to be increased by 1% with effect from 1st February 1985.

Where a mortgage deed specifies a period of notice before an increase in the rate of interest applicable to it is effective, such a period will commence on 1st February 1985.

Where a period of notice given to effect a previous change in the rate of interest has not yet expired, that change will take effect from the expiry of that period of notice and remain

applicable until the expiry of the notice hereby given.

For the purposes of this notice an outstanding offer of advance means an offer of advance or further advance dated prior to 31st January 1985.

The new rate of interest and revised repayment figure applicable to an existing mortgage and all outstanding offers completed on or before 31st January 1985 will be notified in each borrower's annual statement of account which will be sent during January 1986.

Where an outstanding offer of advance has not been taken up before 31st January 1985 the new rate of interest and revised repayment figure will be quoted in the statement sent to each borrower after completion.

Prospective borrowers requiring information relating to the effect of this notice prior to completion should contact the branch of the Society which issued the offer of advance or the Society's Administration Centre.

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## AMERICAN NEWS

## Senator calls hearing on farm financial crisis

BY NANCY DUNNE IN WASHINGTON

SENATOR JOHN MELCHER, a Montana Democrat, has called an emergency public hearing today on Capitol Hill to focus attention on the turmoil in the U.S. farm belt, where thousands of American farmers are expected to be bankrupt in the spring and hundreds of farm banks are in deep trouble.

"There is a horrendous sense of frustration by farmers that no one is listening to them," said Mr David Voligt, a Melcher aide.

Farmers and bankers will be called to testify on the need for

emergency assistance to credit-starved producers.

Mr John Block, U.S. Agriculture Secretary, was expected to brief the President on the coming crisis at a cabinet meeting yesterday, although the Secretary's aides warned that he would present "no big plan" because "Uncle Sam isn't the answer."

"Everybody, the banks included, is going to have to take some of the responsibility," said one Block assistant.

With the current farm programme due for renewal this

year, the Secretary has been preparing proposals for a new Farm Bill, which would make deep cuts in farm spending. Most analysts say that the end will come for the most financially strapped farmers—those Mr Block says have "failed to make good decisions"—before the ink is dry on the new legislation.

Protests of all kinds have been erupting in this bitterly cold winter of farmer despair. Last week, the American Agriculture Movement picketed the Chicago Commodity Exchange, in a futile effort to seek a price

floor in grain trading.

In Minnesota, thousands of farmers and businessmen marched on the state capital demanding a state moratorium on the 13,000 farm foreclosures expected in the next 18 months. In Iowa, where as many as 17,000 farmers may go under by late spring and 48 banks are on the Federal Deposit Insurance Corporation "problem list," hundreds of demonstrators held a silent protest during the governor's state of the state message.

In Washington, the Administration, which got overwhelming support from farmers in the last election, is under increased pressure to act. Numerous farm group representatives have written to Mr Reagan to protest forthcoming proposals in his farm legislation, even before it is officially introduced.

The National Association of Wheat Growers concluded its annual convention last week opposing almost all the coming proposals and calling for "the Government to take responsibility for restoring an environment in which the agricultural industry can prosper."

## U.S. to use tanks in Honduran exercise

By Reginald Dale, U.S. Editor in Washington

THE U.S. is to start another big military exercise in Honduras next month that will for the first time include anti-tank training near the Nicaraguan border.

Big Pine 3 is the fourth large U.S.-Honduran exercise in two years, but the first in which U.S. armour will be involved.

The Pentagon said an undisclosed number of M60 tanks and M113 armoured personnel carriers would be flown to Honduras for an "anti-armour field training exercise" in April.

Honduran military officials have said the exercise will take place only a few miles north of the Nicaraguan border.

While the Reagan Administration has vigorously denied Nicaraguan claims that the manoeuvres are intended to prepare for a full-scale invasion of Nicaragua.

The Pentagon says that they should "reminiscent" the Sandinista Government not to harbour "any designs on their neighbours."

Big Pine 3 will last about three months, starting in early February, and involve the deployment of as many as 4,500 U.S. troops in Honduras.

About 1,500 U.S. military personnel are usually stationed in Honduras between the manoeuvres, which have been taking place almost continuously for the past two or three years.

Mr Caspar Weinberger, U.S. Defence Secretary, said yesterday that he envisaged joint U.S.-Honduran military exercises continuing.

U.S. officials insist that the exercises are not intended to help the Nicaraguan "Contras" anti-government rebels, though part of the Big Pine 3 manoeuvres are expected to be held in areas where the "Contras" operate bases in Honduras.

In Washington, the White House said it still planned to press Congress to lift its ban on U.S. aid to the "Contras" in the coming weeks.

It did not, however, close the door to the possibility of finding new ways to help the rebels, other than the "covert" funds that have been channelled through the Central Intelligence Agency.

## Revised forecast shows fall in U.S. interest rates

BY STEWART FLEMING IN WASHINGTON

THE REAGAN Administration is revising its economic forecasts to project both lower levels of inflation and lower interest rates in 1986.

Although the reduction in the inflation forecast will have no significant impact on the outlook for the budget deficit, the lowering of the interest rate projection is estimated to save the Government about \$10bn (£9bn) in 1986.

The budget message which President Ronald Reagan will send to Congress at the beginning of next week is expected to project a deficit for 1986 of about \$176bn on the, at present, optimistic assumption that Congress will approve the cuts in federal spending of about \$51bn which President Reagan will propose.

Full details of the revised economic assumptions have yet to be disclosed, but officials confirm that for 1986, for example, the budget will assume that inflation as measured by the Gross National Product deflator will be 4.3 per cent rather than the 4.7 per cent assumed a few weeks ago.

Although the 5 per cent level of interest rates on three-month Treasury bills assumed for 1986 will be maintained, much of the decline to this level will be projected to take place sooner.

The Administration has been forecasting a three-month interest rate of 8.1 per cent in 1986. The assumed 4 per cent real growth rate for Gross National Product between 1985 and 1986, which has been a constant feature of Administration budget projections over the past year, is not expected to be changed.

In revising the economic forecasts officials will be able to point to a number of factors to support their assumptions. These include the decline of the short-term interest rates in recent months, better than expected inflation numbers which

have led some private economists to project inflation in 1986 could be lower than the 3.7 per cent recorded last year, and evidence that the economy is recovering from the pause in growth in the second half of 1984.

While the economic projections in the budget are unlikely to be the source of great controversy, the debate about the 1986 budget is generating heat.

On Capitol Hill Senator Robert Dole, the Senate Majority Leader, is said to be in danger of falling in his efforts to draw up a package of budget cutting measures for presentation later this week.

Personal appeal  
Senator Dole was expected to make a strong personal appeal for support at a meeting of Senate Republicans yesterday.

A major sticking point remains the defence budget. Mr Caspar Weinberger, Defence Secretary, backed by President Reagan, is vigorously resisting pressure from Congress to make significant cuts in defence spending.

This is being done despite Senate Republican warnings that without concessions on defence, President Reagan's hopes of gaining Congressional support for the draconian list of cuts in domestic spending he has prepared, are negligible.

Mr Weinberger has already taken the unusual step of trying to appeal to the country over the head of Congress in an hour-long television session with the national Cable News Network.

In the broadcast, half of which was devoted to a play by Mr Weinberger, the other half to a question and answer session, Mr Weinberger defended the Pentagon's proposed \$133.7bn budget for 1986.

He said that defence spending should be geared to the external military threat, not to balancing the budget and that to short change defence now would weaken the U.S. negotiation position in the Geneva arms talks.

## New York probes police 'brutality'

By Terry Dodsworth in New York

THE CITY and the state of New York have ordered separate investigations into allegations of a systematic medical cover up of police brutality in the city.

The moves follow a series of articles in the New York Times claiming that Dr Elliott M. Gross, the Chief Medical Examiner of New York City, has produced misleading or inaccurate autopsy reports on people who died in police custody.

Dr Gross has refused to step aside during the investigations, saying that he expects to be "completely vindicated."

In a four-page statement, he accused the newspaper of embarking "on a campaign of character assassination," and said that he would publish a detailed refutation of every charge.

The probe by the city, ordered by Mayor Ed Koch, will be conducted by a special legal counsel with full powers of subpoena. The counsel will be able to draw on the services of two pathologists from outside the Medical Examiner's Office.

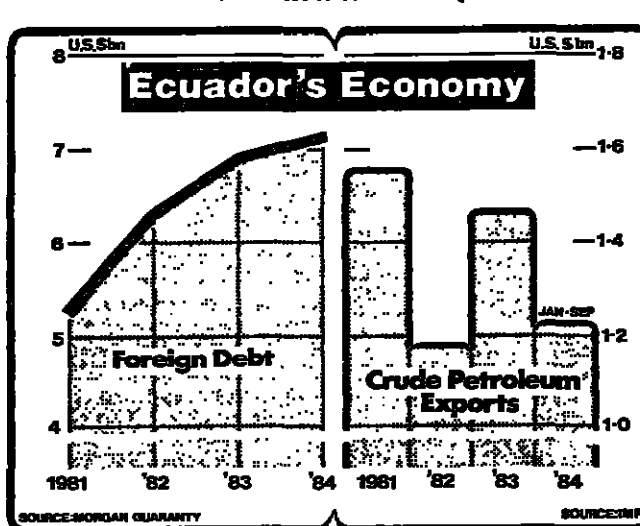
The second investigation will be conducted by the state's Health Commissioner, and the Criminal Justice Coordinator.

Many of the people who have died in custody have come from minority groups, which have been growing increasingly vocal in their accusations of police bias.

These complaints have gained backing from lawyers, who have strongly and publicly criticised Dr Gross's conduct, claiming that he has accommodated the police.

## Oil companies return to Ecuador

BY SARITA KENDALL IN QUITO



THE RETURN of foreign oil companies to Ecuador, confident that further exploration will prove fruitful, is a major event for a country which depends on oil for nearly 70 per cent of its export earnings.

Occidental signed a new exploration contract last week and another contract with Esso/Hispanoil is expected next month. Belco is to sign up for the exploration of two offshore areas in March.

The Government plans to offer four to six blocks for bids by foreign companies each year, with the first four to be announced on February 15. Two of these lie in the Amazon region—the source of most of Ecuador's current oil production—and several companies have already expressed interest in them.

This burst of exploration activity belies gloomy forecasts that Ecuador, a member of the Organisation of Petroleum Exporting Countries (Opec), would have little crude available for export by the end of the decade.

Both oil production and export volumes have been running at record levels recently, with output at 270,000 barrels a day, but the company said a Ecuador's official Opec quota of 183,000 b/d. Ecuador announced recently that it would disregard Opec rulings on price and output for the indefinite future.

Recent crude oil sales have dropped well below the official price level of \$27.50 a barrel; but even so, three companies have stopped buying and the payment period for other contracts has been extended to 120 days. The price may have to be revised again in February.

Last year's oil exports brought in about \$1.6bn, contributing to a healthy trade surplus of over \$1bn. Following agreement to reschedule \$4.3bn of foreign debt over 12 years, Ecuador's debt servicing load has been lightened considerably, to under 30 per cent of export income.

International reserves have also risen slightly and predictions that the free market rate for the currency would reach 150 sucres to the U.S. dollar by the beginning of 1985 proved groundless. The central bank fixed rate at 95 to the dollar. A 1984 growth rate of more than 2 per cent has also helped to fuel optimism about the future in Government and business circles.

But there are doubts about the political stability of the country. The precarious political arrangement between the

Government and the Opposition, which holds the majority of seats in Congress, could easily be upset. Opposition parties supported a two-day general strike call recently by the unions in response to petrol price increases, and they favour a minimum wage increase of at least double the current inflation rate.

Despite political uncertainties, foreign investors seem to be responding to the Government's attempts to woo them. Commercial missions from the U.S., West Germany and the UK are planned in the next few months, with mining, agroindustry and low-cost housing the main areas of interest, in addition to oil.

There are expected to be fewer delays in awarding contracts for exploration and exploitation in future. Occidental's Amazon block is

expected to produce some 30,000 b/d and it is hoped production will start just as output from the older Amazon fields worked by Texaco and the state oil corporation, Cepe, begins to decline.

A connection to the Transandean pipeline in Peru will be needed, and the capacity of the pipeline itself is being raised to 300,000 b/d. Further discoveries in the Amazon region—for example, by Esso/Hispanoil, which will be exploring a "frontier" area—would mean the construction of another pipeline across the Andes.

Apart from the exploration offensive and additions to production from secondary recovery programmes, Ecuador's oil outlook has been enormously improved by changes in local consumption patterns. Demand for oil products rose by more than 10 per cent a year not long ago, and has now dropped right back to a rise of 1 or 2 per cent a year.

The ban on car imports, and fuel price increases has helped, but the crucial factor has been the change to hydroelectric power. One scheme alone has cut the contribution of water-generated power from 20 per cent to nearly 50 per cent of total capacity.

As a result, crude exports can now be maintained at over 150,000 b/d for the foreseeable future, this year average daily exports are forecast at 170,000 b/d. In the longer term, the exploration programme should add new reserves, and although price levels are less than satisfactory, other than the view, the earnings crisis has been averted, at least for the time being.

## WORLD TRADE NEWS

## Hyundai opens U.S. office to spearhead foreign sales drive

BY STEVEN B. BUTLER IN SEOUL

HYUNDAI Motor Corporation yesterday announced the opening of a sales and marketing headquarters in the U.S. It is still undergoing testing in the U.S. but the company said it expected the car would easily meet the tough U.S. standards.

Hyundai has recruited some of its U.S. executive staff from the American sales arm of Toyota, the Japanese company. Mr Max Jamieson, a former Toyota executive, will head the Hyundai operation.

The company expects to recruit a nationwide sales staff of 300, concentrating its sales first on the east and west coasts of the U.S. A network of dealerships will be established shortly.

Hyundai introduced a low-priced, rear-wheel drive car, the Pony, into the Canadian market last year and it was an instant success. More than 25,000 units were sold, roughly four times the company's initial expectations.

The company expects to sell between 100,000 and 120,000 units in the first 12 months of sales in the U.S.

The "X" car will be introduced in the Korean market in March. By November,

Hyundai plans to be producing the car at a rate of 300,000 units a year.

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## Taiwan revives N-plant project

By Ian Rodger

TAIWAN POWER is reviving a \$4.5bn (£4bn) nuclear power plant project that was abandoned over two years ago because of gloomy electricity demand forecasts.

New tenders have been submitted by General Electric, Westinghouse Electric and Combustion Engineering, of the U.S., and Northern Engineering Industries (NEI) of Britain, for parts of the Yenlo project, which is based on the pressurised water reactor (PWR) technology.

In May, 1982, NEI Parsons received a contract for an \$80m contract to supply two 1,000 megawatt turbine generators for the station, heating GE, Brown Boveri of Switzerland and Hitachi and Mitsubishi of Japan. However, the latter two months later when Taipower decided to postpone the project indefinitely.

Yesterday, Taipower said the project had been given the go-ahead by the country's Council for Economic Planning and Development and was awaiting Cabinet approval.

Although industry officials express satisfaction with the progress of the negotiations, trade officials still appear to be weeks, if not months, away from nailing down actual settlements with any of the importers.

Under President Reagan's programme for assisting the domestic steel industry to "level the playing field in steel trade," U.S. trade officials were given 90 days last September to seek negotiated voluntary quota agreements. Faced with this mammoth task, they returned in 92 days claiming agreements on "basics" and a handful of loose ends still to be resolved.

To date, what the U.S. has in formal commitments, as it strives to limit foreign penetration to about 20 per cent of the market, are agreements with only four nations whose collective imports will total less than 1.5 per cent, and a renewed pact with the EEC limiting their market share to 5.4 per cent. The agreement with the community was first negotiated in 1982.

Since the December 19 announcement, final arrangements have been concluded without Finland (not among the

## U.S., Japan launch trade studies

BY JUREK MARTIN IN TOKYO

JAPAN and the U.S. yesterday agreed to pursue separate studies on four market areas in which the U.S. claims Japan unfairly discriminates against U.S. goods and services.

The first round will be taken up by the Japanese trade officials from both countries discussing trade in telecommunications equipment. Other groups will convene next month on pharmaceuticals, computers and electronics, and forest products.

It appeared to be the main result of two days of talks at the Foreign Ministry between senior officials; the U.S. delegation was led by Mr Allen Wallis, the undersecretary of state for economic affairs.

Mr Wallis told the Japanese side that barriers against competitive U.S. goods embraced by the four market areas were undermining President Reagan's attempts to keep a lid on protectionist attitudes in Congress.

Mr Wallis claimed that assorted Japanese trade barriers, mostly on the non-tariff side, were costing the U.S. as much as \$10bn (£9bn) a year in exports to Japan. In the four market areas, U.S. products were fully competitive "in terms of price, quality, reliability and technological excellence."

He singled out telecommunications equipment as perhaps the single most important area.

Japan, however, countered in kind, with Mr Reiji Teshima, the Deputy Foreign Minister, maintaining that the estimated

\$33bn U.S. deficit in bilateral trade last year was more the result of the high U.S. dollar and insufficient effort by American companies in selling to Japan.

Mr Teshima reportedly said that sectoral concessions by Japan were unlikely to make much of a dent in the deficit. Nor would he concede that the relaxation of any barriers in the four designated market areas would necessarily form the major part of the next liberalisation package, due to be completed by the end of March.

It would appear that the meeting was very much tactical in nature. The U.S. employed some success last year in focusing its lobbying in Japan on specific areas and seems intent on pursuing a similar

approach this time around.

In particular it may be hoping for a repeat of last year's efforts in which it was instrumental in getting a proposed Bill by the Ministry of International Trade and Industry (MITI), which would have reduced the copyright protection enjoyed by computer software authors, withdrawn from the parliamentary schedule.

However, not all the identified sectors will necessarily respond in this way. Mr Teshima told the U.S. delegation, for example, that it was "not possible" for Japan to make any major concessions on forest products because of fear of damage to the domestic lumber industry.

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## Hong Kong in bid to sway U.S. on textiles

By David Dodwell in Hong Kong

HONG KONG'S director of Trade, Mr Hamish Macleod, left for Washington yesterday for what is likely to be a final attempt to persuade the U.S. to abandon controversial new textile import regulations.

The meeting comes at a time of growing fear in Hong Kong that only cosmetic alterations can be expected. The new legislation, introduced at short notice and in defiance of existing textile trade agreements, was seen until recently as a ploy by President Reagan to appease the powerful textile lobby in the U.S. during his Presidential election campaign.

Hong Kong and China are among the most seriously affected by the changes, which involve new definitions of the country of origin of textile products. Hong Kong textile manufacturers say exports worth about HK\$3bn (£300m) are likely to be lost this year if the regulations are not revoked.

Manufacturers of woollen garments, the group worst hit by the changes, have reported a 40 per cent fall in orders since November. They say about 100 producers in China have said a similar number of jobs are at stake there.

The U.S. was unanimously censured by members of the General Agreement on Tariffs and Trade (GATT), which met specially in November to consider the American legislation.

A Hong Kong Trade Department official commented recently: "We are dealing with a move that is arbitrary, authoritarian, one-sided and at odds with consumer interests and preferences. It is in defiance of a bilateral agreement and multilateral discipline."

The feeling of harassment has been aggravated by an unprecedented number of calls by the U.S. during 1984 for bilateral renegotiation of textile exports not yet subject to quotas.

Since 1982, Hong Kong's textile exports to the U.S. have risen from 50 per cent of exports to 82 per cent as a result of such calls. The GATT textile surveillance board censured the U.S. in December for acting beyond its powers in making the calls.

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## Isuzu signs Y75bn deal to sell trucks to China

ISUZU MOTORS of Japan, which is 34 per cent owned by General Motors of the U.S., has signed a Y75bn (£265m) contract to sell trucks and truck manufacturing technology to China Automotive Industry Corporation, Reuters reports from Tokyo.





## ELECTED TOWCAR OF THE YEAR, WE FIND OURSELVES IN A POSITION OF SOME STRENGTH.

16 cars were entered by 12 manufacturers for this year's Towcar of the Year competition.

We all reported to a military test track in Surrey and were promptly issued with caravans-for-the-towing-of, ballasted to 75% of the cars' weight.

And round and round the assault course we went, till all eight judges had put us through our paces.

They judged us for traction, acceleration, braking, handling, stability, flexibility, ride, suspension, vision, overall suitability and value for money.

Modesty's not going to forbid us quoting the Caravan Club's magazine:

"When it came to the final apportioning of judges' points there was really no contest. The Volvo 360 got... an unassailable victory."

Naturally, such "a strong lead over the runner-up" (*The Guardian*) has gone to our head a little. But as you can see, we haven't gone soft in it.

As in all Volvos, drivers and passengers in our

360 GLEi are protected by an immensely strong steel safety-cage, steel bars in the doors and crumple zones fore and aft.

But back to the delightful and well-informed caravanning press:

"The £7500 Volvo... impressed the judges particularly with the flexibility of its new engine" (*Caravanning Monthly*).

And writing in *Camping & Trailer*, one of the judges also wrote the rest of this advertisement:

"As soon as I sat in the driver's seat I knew the 360 had that Volvo feel of quality and safety."

It "was as snappy as you need in today's traffic conditions, when it is important to be able to accelerate out of a potentially dangerous situation; and the engine's torque characteristics so suited to towing that I was able to lap the test track at a steady 50 mph without changing down from the fuel-saving fifth gear."

"In repeated emergency stops the Volvo/Deanline

outfit never failed to pull up swiftly and surely, and on the test hills (up to 1-in-6) the outfit pulled away almost as strongly as on the flat.

"Throughout it all I enjoyed a comfortable, pitch-free ride."

We should add that the Volvo 360 GLEi doesn't do as well without a caravan.

It does better.

To: Volvo, Springfield House, Mill Avenue, Bristol BS1 4SA. Please send me details.

35/47-05-F-05.

Mr/Mrs/Miss

Address

Postcode

**THE 1985 VOLVO 360 GLEi, £7696.**

1985 VOLVO 360 GLEi STARTS AT £7210. PRICES INCLUDE CAR TAX AND VAT (DELIVERY AND NUMBER PLATES EXTRA). INJECTION MODEL FEATURED FROM £7696 CORRECT AT TIME OF GOING TO PRESS. CUSTOMER INFORMATION TELEPHONE: IPSWICH (0473) 715131. FOR EXPORT SALES TELEPHONE: 01-493 0321.



## UK NEWS

## Trade union votes 12-1 to take cash for ballots

BY DAVID GOODHART

MEMBERS OF Britain's second largest union, the Amalgamated Union of Engineering Workers (AUEW), have voted by a huge majority to accept Government money for postal ballots in defiance of Trades Union Congress (TUC) policy.

AUEW leaders said yesterday that recommendations to accept the money had been supported in the postal ballot by about 12 to 1 - 233,030 members voted to accept the money and 19,793 voted against.

The crushing majority was recorded on one of the highest responses in recent AUEW elections; 31.3 per cent of the 1m members voted, with 34 per cent from the main engineering section taking part.

The organised left-wing of the union, which usually carries significant minority weight, opposed taking the money, but only half-heartedly.

Government funds for ballots were made available last year in trade union legislation which made it compulsory for a union to ballot its membership before authorising strike action.

Yesterday's result was expected, but the extent of the majority may strengthen the union's hand in the wrangle that will now begin with the TUC.

Mr Gavin Laird, the AUEW gen-



Mr Gavin Laird: seeking £1m in back payments

eral secretary, has already written to the Certification Officer asking for £1m in retrospective payment for ballots held since 1980.

When the money is received, which may not be for another three months, TUC disciplinary procedures will begin at once. The AUEW is in open breach of the TUC's 1982 Wembley agreement.

The AUEW's case will first go to the TUC's finance and general purposes committee and then to the general council, but the September TUC Congress is likely to intervene to qualify the 1982 policy before any decision is taken on expulsion of the union.

The Electrical, Electronic, Tele-

communications and Plumbing Union, the other main right-led union which makes extensive use of the costly postal balloting system, has also decided to accept government money. It has compromised, however, and said it will take the retrospective payment (which the Government has said must be done before February 4) but then freeze the money until the argument is resolved.

The British Airline Pilots Association has also decided to accept the money and a number of other unions are actively considering it. Mr Terry Duffy, the AUEW president, said he detected a change in opinion among unions and hoped that reconsideration of the issue by the TUC would solve the problem. He said the AUEW was in the black and was not taking the money to extract itself from financial problems.

"There is nothing immoral or wrong in taking the money. The TUC can act in an advisory capacity and we comply with the wishes of our members."

"In spite of the problems that would arise if the TUC expelled us we shall implement our members' decision. The days have gone when leaders could dictate to members. They now demand to be consulted and we have done that."

## Army in £24m plan to use lasers for battlefield training

BY BRIDGET BLOOM, DEFENCE CORRESPONDENT

THE BRITISH ARMY expects to embark soon on a £24m plan to revolutionise the way it trains its soldiers.

The army plans to equip two brigades in the next few years with equipment which will simulate direct fire from a range of weapons systems, including tanks, anti-tank guided missiles, machine guns and rifles.

The equipment, which involves technologies based on the laser, microchip and computer, will offer the army, according to senior officers, an "infinitely more realistic battlefield simulation."

The simulators use low-powered "eye-safe" lasers as "ammunition" for the wide range of weapons in service or planned for the army. The laser is "fired" at a target equipped with detectors to receive it. If the laser hits the target a "kill" is achieved putting the target - whether man or tank - out of the battle.

"In the past, we were barely more sophisticated than children playing war games and shouting 'Bang, bang! you're dead!'" a senior officer said.

This is effectively what officers who umpire military exercises, such as last autumn's Lionheart or much smaller training manoeuvres,

still do. In future, a laser programmed from, for example, a Milan anti-tank weapon, could immobilise a Challenger tank by switching off its electrical system. A direct hit on an infantryman would set off an unpleasant buzzing, which could only be silenced if the soldier lay flat on his back.

Neither the tank nor the soldier could be revived unless the umpire used his own "life-giving" laser gun.

The army already has a small number of simulators. Under a recent contract all its Challenger and Chieftain tanks will be equipped by the end of the decade with a system known as Simfics.

Centronics, part of the First Castle group and the other large UK producer, is also supplying its Saves - small arms weapons effect simulator - for a small number of infantry.

The £24m package which has just been approved by the army will equip two full brigades with tactical simulator systems covering not only the tanks and infantrymen themselves but their Milan anti-tank weapons, the new shoulder-launched light anti-tank weapon Law80, the new MCV80 combat vehicle, as well as Scorpion, Scimitar and Spartan armoured vehicles and associated helicopters and missiles.

## National centre to co-ordinate British space technology

BY PETER MARSH

THE GOVERNMENT has bowed to pressure from industry and set up a co-ordinating body to marshal Britain's efforts in space technology.

The British National Space Centre will probably be based at the Royal Aircraft Establishment (RAE) at Farnborough, Hampshire, Mr Geoffrey Pattie, the Minister for Information Technology, said yesterday.

Mr Pattie said the Government would decide on the level of resources and staffing for the centre over the next few months. He ruled out, at least for the next two years, any increases in Britain's annual budget for civilian space activities, now running at some £90m a year.

News of the centre comes after several months of lobbying by industry groups. It will give a sharper focus to Britain's activities in space. Responsibility for this area is at present shared by several government bodies, including the Department of Trade and Industry, the Ministry of Defence and the Science and Engineering Research Council.

The first two departments both have a say in the running of the RAE, while the main centre of space expertise for the research council is at the Rutherford Appleton Laboratory near Oxford.

The new centre is intended to co-ordinate the country's work in areas such as telecommunications

and Earth-mapping satellites, future developments of Western Europe's Ariane rocket and studies concerning the international manned space station planned for the 1990s.

Representatives from Britain's space industry gave a guarded welcome to the body. They said it would improve co-ordination between different Whitehall departments, but industry leaders said they would reserve final judgment until the Government gave details of how the centre would operate.

The announcement serves notice to Britain's partners in the European Space Agency (ESA) that the UK intends to get a firmer grip on space technology. The lack of a central British agency for these matters has come in for oblique criticism from France and West Germany, both of which have national space bodies.

Mr Pattie's declaration came immediately before he flew to Rome for a meeting of ESA ministers today and tomorrow. They will decide on a broad strategy for joint West European efforts in space technology over the next 10-15 years.

Mr Pattie said Britain would urge ESA's other 10 members to respond positively to the invitation by the U.S. that Western Europe should help in the construction of a manned space station, which is due to enter orbit in 1992.

"Joining the space station programme will give us access to all of the international space station facilities for techniques such as satellite refurbishing and refuelling. These will be essential if our space industry is to keep ahead of competition into the next century," said Mr Pattie.

Britain's contribution to the space station could be a small platform that orbits over the north and south poles, carrying cameras for Earth observation. This would be part of a large laboratory module, christened Columbus and built by West European industry, that would plug into the central core of the U.S. orbiting base.

Mr Pattie said ESA should spend £50m on a two-year feasibility study on the costs and benefits of Columbus. Britain's contribution would be £12m. Western Europe should decide on the "much larger" study that would be needed to build Columbus only after the study had been completed.

Dr Peter Martin-Kaye, a geologist from Hunting, a resource-surveys company which uses pictures taken from observation satellites, said: "I welcome any change in the current arrangements but I don't have a lot of confidence that a new organisation will give a sharp pointed direction to Britain's space policy."

# BRITISH TELECOM'S NEW BUSINESS CENTRE SHOWS THE WAY IN DOCKLANDS

The talking's over. The new London Docklands is here and now. The most exciting urban development seen by this country, or perhaps any other, is ready for business. The facilities are simply breathtaking. Everything has been designed from scratch to create an infrastructure which will still be ahead of its time in the 21st century. Naturally, British Telecom has been involved right from the start, building in the most advanced telecommunications imaginable. Digital networking and data transmission systems, optical fibre communication links, instant data base access; they're all available to any organisation setting up in Docklands. There are even international satellite links thanks to British Telecom's satellite earth station now in operation in Docklands. And now it's even easier to choose exactly the equipment and services you'll require when you set up business in this unique complex. That's because British Telecom's brand-new Business Centre is now open at Canary Wharf. There you can see all the latest British Telecom products and find out about all the latest services which will be available for Docklands business. Above all you will be able to benefit from the experience, knowledge and consultancy ability which only British Telecom can provide. Advice and demonstrations are there now, on the spot - yet another reason to team up with British Telecom. Come and talk to us at our Docklands Centre. And start turning exciting business prospects into profitable reality.

## THE SKY'S THE LIMIT

Contact Paul Harvey, British Telecom Business Centre, Canary Wharf, West India Docks, London E14 9RA 01-515 1234

British TELECOM

## Ponting secrets trial continues in private

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE TRIAL of Mr Clive Ponting, the senior Ministry of Defence official charged with an offence under the Official Secrets Act, continued behind closed doors at the Old Bailey, London, yesterday for four hours.

Only the first 40 minutes of yesterday's hearing was held in public, when the first prosecution witness, Mr Richard Mottram, private secretary to Mr Michael Heseltine, the Defence Secretary, began his evidence.

The hearing was held in camera when Mr Mottram was asked to deal with the so-called "Crown Jewels" - a document prepared by Mr Ponting dealing with the events leading up to the sinking of the Argentine cruiser, the General Belgrano, during the Falklands War.

Mr Ponting admits sending two Defence Ministry documents to Mr Tam Dalyell, a Labour MP, but has pleaded not guilty to a charge under Section 2 of the 1911 Official Secrets Act.

He is charged with disclosing information to a person other than a person to whom he was authorised to disclose it or to whom it was, in the interest of the state, his duty to disclose it.

The documents Mr Ponting admits sending to Mr Dalyell - described by the prosecution as having "a particular and unremitting interest in the fate of the General Belgrano" - were a letter drafted by Mr Ponting for Mr Heseltine in reply to one from Mr Dalyell, and a Defence Ministry minute about changes in the rules of engagement which laid down the circumstances in which British warships could engage the enemy.

When the trial began on Monday, Mr Justice McCowan accepted the prosecution's contention that part of the "Crown Jewels" was so sensitive that national security required that it should not be exposed in public.

Mr Mottram's evidence will continue in public today.

## British Telecom places £13.7m order with BL

BY JOHN GRIFFITHS

BRITISH TELECOM has placed with Austin Rover, part of the state-owned BL group, what is believed to be the largest single order for light vans in the UK. The 3,000 Maestro vans, to be supplied between now and early 1986, have a showroom value of £13.75m.

In the contract are provisions for British Telecom to increase the order by 1,500, bringing the potential total value of the contract to more than £20m.

It provides a substantial boost to Austin Rover, which last year lost its title as UK market leader in the light vans sector to Ford.

A factor in the decline of its light

van sales from more than 25,000 in 1983 to less than 19,000 last year was that it was phasing out its Bal van in favour of the Maestro unit, which did not go on sale until the second half of last year.

The company said yesterday that it believed it could recapture the van market leadership this year. The Society of Motor Manufacturers and Traders predicts that a total of 88,000 vans will be sold in 1985.

Orders from British Telecom, which operates one of the largest business vehicle fleets in Europe, have also been playing a substantial role in the revival of Freight Rover.



Clydesdale Bank PLC

## INTEREST RATES

Clydesdale Bank PLC announces that with effect from 1st March 1985, interest charged on debit balances on existing Personal Credit Plan Accounts will be increased by 2% to 18% per annum debited quarterly (equivalent to an effective annual rate of 19.25%) and interest paid on credit balances will be increased by 2% to 8% per annum.

In the case of new P.C.P. Accounts the new rates of interest will be effective from 30th January 1985.

دولت اسلامی



## UK NEWS

## Decisions on freight blacking shelved

BRITISH RAIL yesterday allowed the manual railway workers' unions to put off an awkward decision on whether to lift their blacking of some freight movements in support of the miners' strike.

At a meeting of the Rail Council, BR's main consultative body, the two sides agreed to shelve the issue in the hope that present peace moves in the coal dispute would be successful.

BR's decision not to press the matter yesterday is further proof that both sides are trying to restore relations damaged by the blacking action, by its impact on BR's freight business, and by the one-day strikes it caused in the Midlands and London two weeks ago.

After a meeting of the Rail Council last week described as "serious and constructive" yesterday's session appeared to have been just as conciliatory and businesslike.

BR made clear, however, that it was looking for positive commitments from the unions. It told them that the coal dispute had cost the railways £273m - almost £50m up on previous estimates - and that it was a worsening position.

BR will hope that the unions will agree at least to relax their ban on the movement of loaded wagons of coal to be unloaded to prevent chemical damage.

As well as not pressing for these concessions yesterday, BR did not raise the threat of legal action for damages over the one-day strike and was playing down the possibility of 600 job losses arising from the loss of freight business owing to the blacking.

Pay remains one area of possible conflict, however. Mr Jimmy Knapp, general secretary of the National Union of Railwaymen, said: "Our members deserve and need a substantial increase in pay without selling jobs and without any strings attached."

PRIVATISATION of British Airways has been postponed until next financial year, beginning in April, Mr Nicholas Ridley, Transport Secretary, said. Uncertainty surrounding the suit brought by the liquidator of Laker Airways against BA and other international airlines is understood to be the cause of the delay.

OVERSEAS aid funds are to be made available to Leeward Islands Air Transport of Antigua to enable it to complete its proposed purchase of four British Aerospace Super 748 airliners worth about £20m.

Cash for two of the aircraft (about \$10m) has already been raised by the Caribbean Development Bank after an EEC rejection of funds for the airline unless it bought a Franco-Italian aircraft instead of the Super 748.

## Pensions in 1985

OUR REPORT on January 24 of the Pensions in 1985 conference quoted Mr Brian Tatch, a senior partner with Clay and Partners, as saying two out of three U.S. pension schemes made refunds in 1984 compared with one in two the previous year.

Mr Tatch actually said that, of the U.S. schemes which made refunds in 1984, the assets represented two thirds of the assets of those schemes. The corresponding figure for 1983 was one half. We apologise for the error.

## Coal talks fail to find way for settlement

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE EXECUTIVE of the National Union of Mineworkers (NUM) will meet today faced with a categorical demand from the National Coal Board (NCB) that any further substantive talks between the two sides should focus on the issue of uneconomic pits and the board's right to close them.

The union has consistently opposed the closure of uneconomic pits throughout the miners' strike, which began last March, and there were strong indications last night that the executive would be unlikely to agree to talks on such a basis.

It is understood that Mr Peter Heathfield, the NUM general secretary, angrily rejected such a precondition in the "talks about talks" he held for three hours yesterday with Mr Merrick Spanton, the board member for personnel.

Mr Michael Eaton, the NCB's communications chief, said last night: "We told the NUM that we needed it clearly understood between us that we are going to be in a position to close collieries if we exhaust the colliery review procedure. The union wasn't able to agree to that, so we were not able to have an agenda for future talks."

Mr Arthur Scargill, the NUM president, said after hearing a report on the talks from Mr Heathfield that the union had "tabled a number of initiatives which we believe could provide the basis to help resolve the present dispute." He repeated that the union would attend the talks without preconditions.

It is understood that these "initiatives" include the union's insistence, expressed in previous talks, that the board wholly withdraws its proposal to cut 4m tonnes of annual capacity and to shut five named pits - demands which the board regards as having been settled in the agreement made last October with the pit supervisors' union Nacods, in which it promised to "reconsider" these issues.

Mr Peter McNestry, the Nacods general secretary, fiercely attacked the board last night, saying that in seeking to tie the NUM down to a



Mr Scargill: 'new initiatives tabled'

promise that it would accept the closure of uneconomic pits, it was worsening the Nacods settlement. Mr McNestry said that his executive, due to meet later this week, would urgently consider the issue.

"If they attempt to claw anything back from our settlement, it will cost them a lot. It's a dangerous road they're on," he said.

It was clear from an appearance on television last night by Mr Eaton and Mr Scargill that the two sides are as far apart as ever. Mr Scargill said of Mr Eaton: "The fact that he's talking about the closure of so-called uneconomic capacity means the butchery of our mining industry. If they do close these pits - which are deemed uneconomic, then that would mean the destruction of many many pits - 70 at least."

Mr Scargill said that the board's demand for prior assurances on closures before substantive talks was "an astonishing revelation." His attitude means that the executive today will be faced with a national leadership strongly arguing for rejection of the NCB's preconditions, and that early talks to end the strike seem unlikely.

Only 182 miners abandoned the strike yesterday, a sharp drop on the number who returned to work on the same day last week. The board felt that this reflected the fact that there were talks yesterday between the two sides.

## Heseltine assesses Trident at £10.4bn

By Peter Riddell, Political Editor

THE TRIDENT missile system will cost roughly £10.4bn if the sterling exchange rate remains around its present level of \$1.10 over the 20-year life of the project.

This represents an increase of about £3bn in the estimated cost over the past three years on the basis of official figures made available at Westminster yesterday. The Trident programme is particularly sensitive to the sterling/dollar rate since about 55 per cent of the value of work is being incurred in the U.S.

Mr Michael Heseltine, the Defence Secretary, told the House of Commons yesterday that the updated cost was £9.2bn. This was on average 1984-85 prices and on the basis of the established expenditure convention of taking the exchange rate at last June when it was \$1.38.

An indication of the effect of changes in the exchange rate on costs would be made available to the relevant Commons committee, he said. These figures showed that at \$1.38 each one cent movement changed the bill by £30m, while at \$1.10 each cent change was equivalent to a £50m alteration in the total cost of Trident.

On this basis the cost worked out at about £10.4bn if the current sterling/dollar rate continued through the project. This compared with an original estimate of £5bn in 1980, which was raised to £7.5bn in 1982. In March 1984 the figure was revised up to £8.75bn.

## Scottish and Japanese yards to build offshore oil vessel

BY MAURICE SAMUELSON

TWO LEADING UK and Japanese companies have joined forces in a bid to win orders in the increasingly competitive international market for offshore oil production platforms.

They are Brown and Root-Wimpey Highlands Fabricators, based at Nigg Bay in north east Scotland, and Mitsui Engineering and Shipbuilding, Japan's sixth biggest ship-building concern.

They announced in London yesterday that they had agreed on a design for a floating production vessel (FPV) suitable for use in the marginal oilfields that will be characteristic of the next stage of activity in the central North Sea and in other parts of the world.

The agreement, reminiscent of that between BL, the UK state-owned car company, and Honda, might help to remove the doubts

about the future of Highlands Fabricators. The only order on its books is the large contract it won last September as part of the £230m development of Marathon's Brae field in the North Sea.

The Energy Department said last night it welcomed the fact that a British yard was involved in developing North Sea technology and that the costs, responsibility and risks would be shared.

Mr Kevin Barry, chief executive of Highlands Fabricators and chairman of the new concern, claimed to have identified 14 North Sea fields in which the floating production vessel would be suitable.

Describing the vessel as "simple, practical and economical," he said it could be completed in 21 months and would be cheaper than alternatives, which were on the market for between £80m and £100m.

While the above-water deck section will be built at Nigg Bay, the underwater section, representing between a quarter and a third of the value of the basic structure, will be manufactured by Mitsui in Japan.

The two sections will be "mated" at sea in the most convenient location.

The Highlands-Mitsui system is the latest of a number of floating or semi-submersible structures developed for deep waters for marginal fields where a heavy fixed structure is uneconomic.

Last year, a tension leg platform - moored to the seabed by cables - was installed on Conoco's Hutton field.

British Petroleum has devised a platform, called Swops, consisting of an adapted oil tanker, the first of which is to be built by Harland and Wolff, the Belfast shipyard.

## Insolvency sanction may be modified

By Kevin Brown

THE GOVERNMENT'S proposals for the automatic disqualification of directors of companies facing compulsory winding up may be modified in the face of widespread protests, Lord Lucas of Chilworth indicated in the House of Lords last night.

Lord Lucas, the Government's trade spokesman, faced criticism of the proposals from all parts of the Lords during the first day of detailed committee stage debate on the Insolvency Bill.

A succession of Conservative, Labour, Alliance and Independent trade spokesmen faced criticism of the proposals from all parts of the Lords during the first day of detailed committee stage debate on the Insolvency Bill.

There was substantial support for alternative amendments moved by Lord Bruce of Donington, Labour's trade spokesman, and by a group of Conservative and Independent peers, led by Lord Benson (Independent).

Both would leave disqualification of directors at the discretion of the courts after an application by the Trade Secretary, the Director General of Fair Trading, the liquidator, or a creditor, who would have to prove fraud, negligence, or failure to keep proper books of account.

Lord Lucas told peers: "I am quite willing to accept that the Government may not have got this clause completely right." He added: "The arguments are not set in concrete. I and my colleagues are not rigid in any way at all about what we have set down."

## It's a healthy life in the Civil Service

BY WALTER ELLIS

EVIDENCE has emerged to confirm the popular belief that civil servants are a breed apart. They live longer than other people, drawing their pensions after retirement for an average of more than 13 years.

A report, published yesterday by the Civil Service Medical Advisory Service, shows that the UK Civil Service is a healthy organisation.

The number of premature deaths among the 530,000 civil servants and 83,000 other state employees is between 40 per cent and 50 per cent lower than among comparable men and women in other jobs.

Absence from work because of illness occurs at about half the national rate and is still declining. It is less than in comparable organisations such as the Post Office. Only six in every 1,000 civil servants retire prematurely on health grounds each year and the total has hardly varied over the last 20 years.

Much of the credit for this performance - described by the Cabinet Office as "impressive" - is given to the Medical Advisory Service itself, which not only provides civil servants with excellent medical care but does its best to ensure that they do not become ill in the first place.

The service believes that its ability to promote health and prevent disease has been greatly enhanced by the inauguration of an occupational health nursing service. The report noted that there is considerable scope for occupational medical and nursing assistance.

Although most civil servants work in areas of low potential hazard, some 80,000-90,000 are employed in areas of greater hazard.

"It's a question of good management," the management and personnel office said yesterday. "The Civil Service looks after its people well."

## Ship manning levels 'on par with Europe'

BY BRIAN GROOM, LABOUR STAFF

MANNING LEVELS on British ships have become so cost-effective over the past three years that they now match those of most North European competitors, the General Council of British Shipping (GCBS) said yesterday.

Improvements are believed to average about 30 per cent, though the council has issued no figures. They range from zero on older vessels to much higher figures when new ships replace old tonnage.

The changes have not halted the sharp decline of the British fleet from 50m deadweight tonnes in 1975 to below 19m dwt, with the loss of 30,000 jobs since 1979, but shipowners believe that more efficient manning and new technology is vital to survival against competitors using cheap Third World labour.

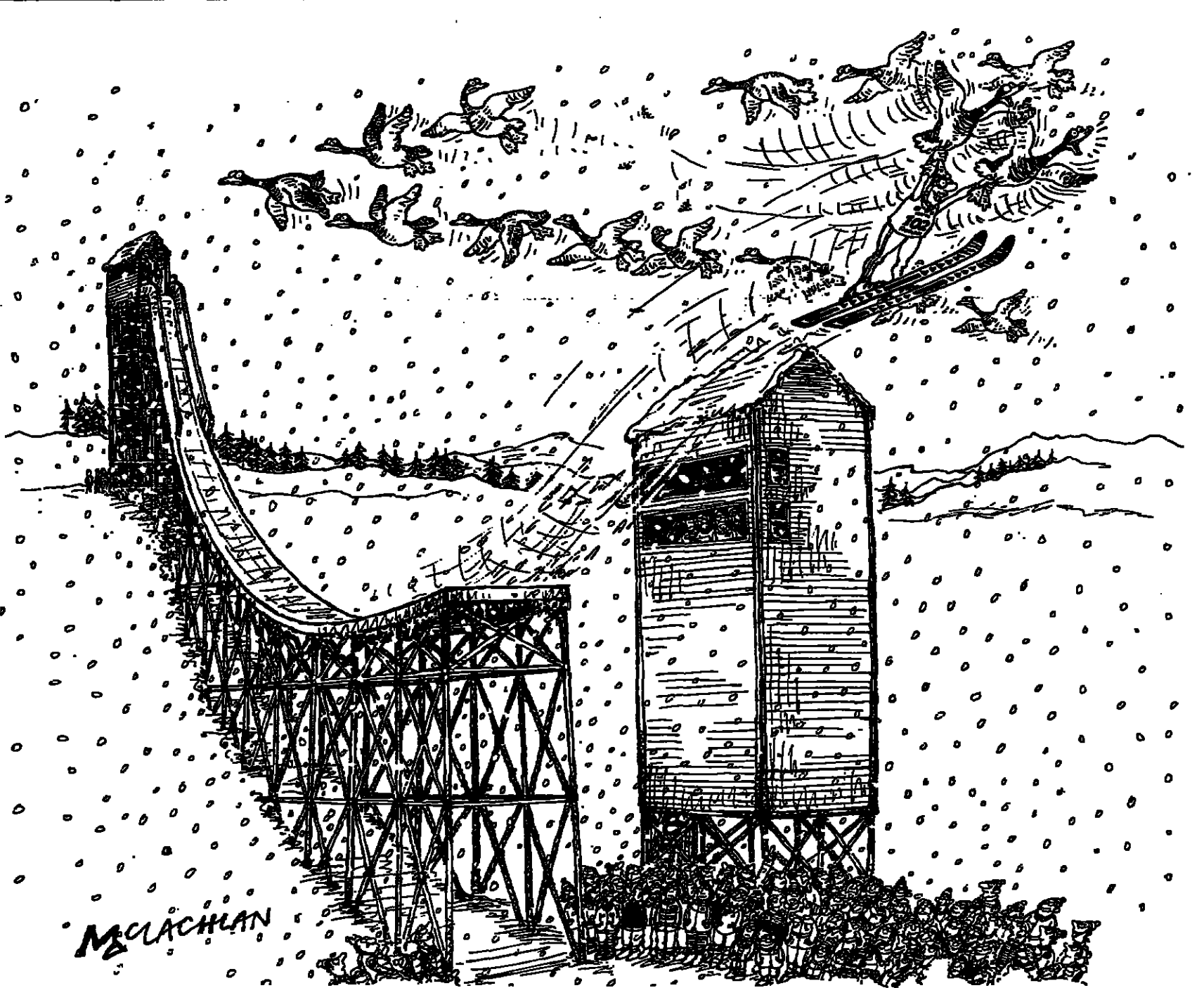
British shipowners stepped up their efforts to use manpower more efficiently in 1982 after a gap was

opened up by improvements among Scandinavian, West German and Dutch companies.

Mr John Whitworth, deputy director-general of the GCBS, said yesterday: "They made good progress in 1980-82, but so have we since then. Across the board we are on a par with most of our North European colleagues."

West Germany and Norway appeared to be out in front. Typical European crew levels for a foreign-going bulk carrier were 20-24 on an existing ship and 18 on a new one, but those two countries would shortly introduce high-technology vessels which would cut crews below that level, Mr Whitworth said.

The GCBS is keen to portray the changes not as crude manning cuts, but reductions made possible by improved technology such as automated engine rooms, which do not require a continuous watch.



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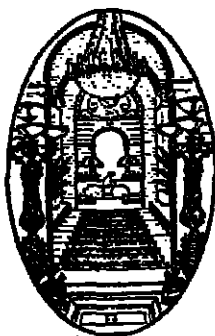
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## THE ARTS

Television/Christopher Dunkley

## A shepherd's delight

Nothing in the 1985 new year season is giving me more sheer pleasure than *Seabrook's Year*. BBC2's Monday night series about a Norfolk shepherd, in the clever and loving hands of writer/producer Dan Haworth (whose series *Fred about the steeples* and *Fred about the steeples* were the best series of 1982) this collection of five films is proving that Richard Seabrook is not only a shepherd and a woodman but a shrewd businessman, a philosopher and a comedian. Haworth's programmes with their happy choice of characters, their delightful photography—by Arthur Smith on this occasion—and their unashamedly emotional music are supreme examples of the way in which television can sometimes fulfil the famous three aims of broadcasting—to inform, to educate and entertain—all at once.

In the days when Tim Brooke-Taylor was known chiefly as one of *The Goodies* the only other place you tended to come across him was in the further reaches of Radio 4. At that time he seemed quite funny both in his television series and on the radio. Now, all of a sudden, it is impossible to turn the box on without TBT popping up in some new guise and the attraction is beginning to wear thin. On Tuesdays he chairs the BBC1 game *Loose Ends*, on Thursdays he crops up in a Goody-like role on C4's *Assaulted Nuts*, on Fridays he appears in *London Weekend's Me And My Girl* and on Saturdays he acts as chief barker on Granada's talent show *The Fame Game*. He seems a pleasant and ordinary enough chap but you can have too much of a good thing and during his live presentation of the talent on Saturday his smile started to look the teeniest bit forced. Considering some of the acts perhaps that was hardly surprising, but this is supposed to be showbusiness.

Judged across its entire range, Channel 4 seems to me marginally more interesting than some other networks today. Perhaps the price we have to pay for its less routine programmes—*Diverse Reports*, say, or *Shape Of The World*—is to have

Phoebe Nicholls and Alan Howard in *Poppyland*

much of its schedule packed with material which would look unremarkable on the other three channels. For instance, *The Price* is an excellent thriller but it would not look out of place on BBC1, BBC2 or ITV. The same goes for *Hill Street Blues* and *St Elmo's Fire*, the comedy series *Relative Strangers*, the quiz show *Tell Me The Truth*, and dozens of other series. Thanks to this sort of content the channel now seems capable of fulfilling its promise to capture about 10 per cent of the audience fairly regularly. But was that really the idea when the fourth channel was planned?

In the words of Chief Executive Jeremy Isaacs: "The Broadcasting Act requires us to cater for tastes and interests not

catered for by ITV; to encourage innovation in the form and content of programmes; to provide over all a service of a distinctive character. We are asked not for more of the same but for something different." Channel 4's latest Top 10 is headed by a movie and that thriller, *The Price*, then come two episodes of soap opera, three game shows, two lots of snooker and the American import *Hill Street Blues*. Innovation? Distinctiveness? Something different?

At least we can welcome the imminent disappearance of two Channel 4 series which were undeniably different but in the worst possible way. Tariq Ali called it "ghettoisation," *Black On Black* and *Eastern Eye*, the first for West Indians and the

second for Asians, appear to have been sustained by the belief made familiar by the National Front that to be black or brown-skinned means that you are inherently different from other people and that you should therefore be separated into distinct groups and treated differently. Writing about the two series earlier this month their executive producer Jane Hewland put it like this:

"Minorities don't need 'alternative' programming. Alternative to what? The whole point is that they haven't got anything in the first place. So what C4 must do first is provide them with the same kind of television 'institutions' everybody else has—programmes they can recognise as 'theirs'."

To maintain that if you are black Cockney or a brown Liverpudlian then *Top of the Pops* cannot be for you, nor *Channel 4 News* nor *The New Pacific* nor *Soap* nor *Hill Street Blues* nor *The Big Match* nor *Game For a Laugh* but that there is a richer social mix and a clear effort to "do a *Hill Street Blues*" in the sense of achieving a busy-busy multi-layered plot. There are two dangers, however: medicines and patients are too polarised and the public too often as minnows, an idea which is both old fashioned and unrealistic; and the *Hill Street Blues* style comedy is a touch too studied.

The genius of the American series is the way that the comedy is realistically grown out of the plot and is often bang up against the boundaries of tragedy. In *The Practice* Kev, the bus conductor who keeps booking his vase-tomy and then running away, is close to farce. His wife chasing him with her sausage-slicing knife was absurd, and his sojourn in the garden shed plain silly. Yet these are relatively minor criticisms of what looks like a formidably powerful basic formula.

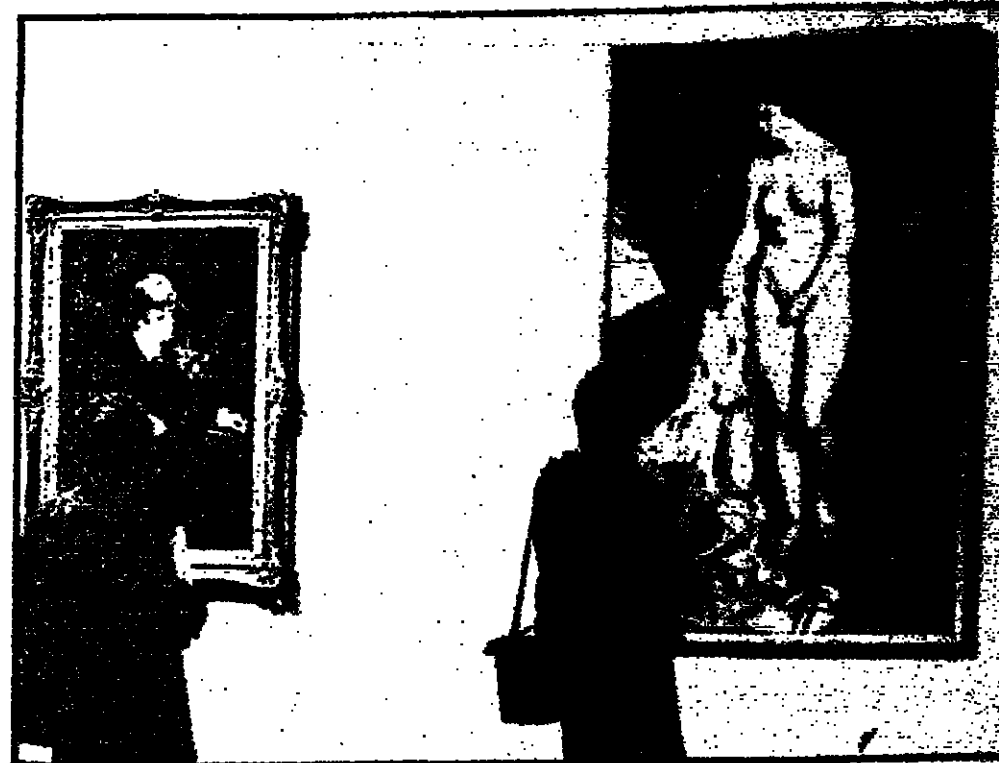
That is my last word for a while; I am relinquishing this space to take up a challenge from Penguin to write a book in the weeks about the future of television.

have anything to do with the third work, *Unfair Exchanges*. Watching it was like spending an hour and ten minutes with one of those people who hang around the reception areas of newspaper offices telling everybody that invisible rays are coming out of the telephone and getting at us. Julie Walters played the loopy lady and—the script having been written by Ken Campbell, presumably on the backs of old phone bills (yes I know they are covered in printing, that could explain a lot)—other characters included a randy dwarf and a heavy breather.

Perish the thought that one should follow in the footsteps of those critics who, after only a few episodes, scoffed at the chances of Granada Television's last soap opera. It was called *Coronation Street*. The new one, built around a Manchester health centre and called *The Practice*, is deliberately different in style and structure. It is a rich social mix and a clear effort to "do a *Hill Street Blues*" in the sense of achieving a busy-busy multi-layered plot. There are two dangers, however: medicines and patients are too polarised and the public too often as minnows, an idea which is both old fashioned and unrealistic; and the *Hill Street Blues* style comedy is a touch too studied.

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Renoir's *Woman in a Garden* and *Bather with a Griffon* at the Hayward

## A major Renoir exhibition

The first major exhibition of the paintings of Renoir in London for over 30 years opens at the Hayward Gallery tomorrow. It will continue daily (except Good Friday) until April 21 with an admission price of £2.50 (£1.50 for students, pensioners, etc, and on Mondays).

Over 120 of Renoir's works are on view, from all periods of an active career which stretched from 1864 to his death in 1919. The show, organised by the Arts Council, provides an unrepeatable opportunity to appreciate the genius of the most popular of the Impressionist painters but one whose reputation has some-

times been dimmed by the very profusion of his output—there are 6,000 known works—and his fondness in later life for painting overripe and gaudy nudes.

This exhibition, which will be reviewed at length on this page shortly, helps to re-establish the genius of Renoir while confirming his own desire to be regarded as an unqualified painter of women. The show, sponsored by IBM, will later travel to Paris and Boston. The admission price also includes access to work by the British abstract artist John Walker, in a show sponsored by Johnny Walker whisky.

## A Summer's Day/Polish Theatre

Martin Hoyle

The seaside park bench, cut-out tree and expectantly dangling hangerman's noose at once set the note of wryly shrugging humorous resignation. The Polish Theatre in Hammersmith's *King Street* is presenting the British premiere of *Slawomir Mrozek's 1983 comedy*. Though best known for his *Tango*, done some years back by the Royal Shakespeare Company, the playwright now displays a tendency to Slavonic paradox and Glibertian logic immediately accessible to an Anglo-Saxon audience; but shot through with a beaming Slav desperation.

In *Adrian Gwilym's* impeccably Edwardian costumes two would-be suicides argue over whose lot is the sadder. Jonathan Hackett's *Unsub* (unsuccesful: is there a Polish equivalent of *Willy*) is a born failure, unable even to kill himself with all the ingredients to hand. Sux, on the other hand, immaculately self-possessed, laments his gift for eternal success and envies the

other's failure. "If you had succeeded in your aspirations that would have been the end of hope. As it is, you have an aim."

Their talk hovers on the brink of the surreal. "I am an excellent swimmer, and you can take it from me it doesn't being happiness," is a fair sample of the (as it transpires) faintly menacing formality of tone.

Both men are attracted to a passer-by (the stylish Linda Marlowe looks stunning; Tadeo's mother perhaps) and act 2 finds her choosing between ineffectual clown and world-weary tragedian. Unlike Shaw, Mrozek reveals this charming manipulator not as the supercilious but as herself, a manipulator—indeed, existing only in the men's respective images of her. In favouring the clown, "I'm choosing myself"—the self she prefers. "I mean so much to him it makes me mean more to myself."

The play is about dignity as much as the arbitrary distinc-

tion between comedy and tragedy. The hero, surprised doing physical jerks on the beach in chaste period bathing dress, is reduced to buffoon; the clown ultimately achieves his end (in both senses), unwittingly and with bitter irony exalted to tragic status.

This sardonic little bagatelle—two intervals are surely excessive in such a short work—is beautifully performed. Mr Hackett's lank-haired pudgy wing resembles, with his round shoulders and perpetually bent knees, a human question-mark. Philip Voss's urbane purr conceals the vocal flick of whip-lash malice in his terminally achieving go-getter. Jack Laskow's transition from clown to tragedian, and Dee Grady provides three sets of devilishly suggestive economy, evocatively lit by David Richardson. Peter McAllister's direction takes in a stylised drowning that is unexpectedly chillingly powerful; like the play itself.

Chaka Khan/  
Hammersmith

Antony Thornecroft

Crowding them in at Hammersmith is Chaka Khan, a rather chubby little lady who is being touted as the best soul singer since Aretha Franklin, as if that rather grand lady was a thing of the past. In performance Chaka more nearly approaches Tina Turner.

You can tell she aims for the enormous soul market by making those piercing little yelps with which soul singers feel obliged to pepper their acts. But in flow she is an adept disco funk merchant and her performance is greatly helped by an excellent band in which the guitarists are exceptional. I even forgive them picking out notes with their teeth.

Alicia de Larrocha/St John's

David Murray

Miss de Larrocha drew only a modest, though properly enthusiastic, audience to Smith Square for her BBC Lunchtime Recital on Monday. That must have been because of her unfamiliar all-Spanish programme but it was still a mistake: the special delights of her playing are never keener than when she gambols in her national repertoire. At the last moment she chose to include a bit of Albeniz, presumably by way of reassurance—but too late, and anyway "El Puerto" (from the first book of *Iberia*) hadn't the single she usually gives it.

The rest was vintage Larrocha, if not particularly ambitious music. Three sonatas

by Scarlatti's Spanish pupil Soler were delectably treated. Soler were delectably treated. There was more compromised Spanish in Oscar Esplá's last piano piece, a "Sonata Española" sown with modernisms like glass-splinters, but always retreating to the safe Romantic vein that Granados effectively exhausted. The pianist's effortless panache gave it fleeting life.

There were also four pieces from the *Musica Catalana* of Federico Mompou, almost 92 and still thriving. These required neither *férocité d'artiste* nor any other sort of artifice, but only serene tact, for which Miss de Larrocha can be relied upon.

## Marivaux and Messenger/Strasbourg

## British presence at Europe's crossroads

If Britain has acted with characteristic independence by actually, inexplicably, closing its consulate in the self-styled "crossroads of Europe," the seat of the European Parliament can, culturally speaking, take it. Strasbourg is well-placed both to enjoy the co-productions more common in continental theatres than in Britain, and to play host to companies from across the nearby borders.

The Collette di Parma recently brought *Macbeth* and *Henry IV* to Alsace; the Opera du Rhin with its three bases (Strasbourg, Colmar, Mulhouse) has just borrowed *Avignon's Véronique* and awaits *Cologne's Don Pasquale*, Zurich's *Ariadne auf Naxos* and Baden's *Xerxes*, besides joint efforts with other French houses.

Meanwhile, the Théâtre Nationale de Strasbourg, its impressive exterior hiding a small auditorium and friendly bar like the clubber provincial English theatres, has given a stylish and thoughtful production of Marivaux's *Heureux Stratégème* which would certainly be the highlight of a

London critic's working week unless our own subsidised giants had something up their sleeves. The measured pace and sombre mood here given to Marivaux's intrigue of amorous bluff and love-through-jealousy reminded me of *Shared Experience* in the same author's *Fausse Confidences* two years ago. A terminal melancholy grips this twilight society. Perhaps André Maroon's unsmiling Dorante (in spectacles and shirtless) like a perpetual student a century and a half before Chekhov is a pointer not only to the Enlightenment but to the deluge to come. The stately rhythms of Jacques Lassalle's production are occasionally disrupted by bursts of energy, improbable physical contact that takes even the participants by surprise.

The gavotte-like propriety is jolted as the Countess tugs the Marquis, her supposed rival, from Dorante.

The foppish southern Chevalier (Serge Avedikian) played by Hamou Graia as a sulky, slightly sinister pretty boy, flirt with the maid Lisette; all three end up on the ground,

ambiguously entangled. The Chevalier pulls Frontin to his feet and the two men freeze in the resultant near-embrace for a second of ambivalent sexual attraction.

This sombre reading (the heroine's "Quel plaisir, Lisette; je suis content," sounded like whistling in the dark) was compellingly played and spoken, notably by Dominique Reynaud's scheming Marquis, her presence and personality faintly recalling our own Sara Kestelman. Only the Act 1 set, an oval opening like a huge eye through which characters clambered or in which they perched as on a windmill, was ugly and awkward. Mozartian strains and deepening shadows left a haunting impression of the vulnerability of relationships, the dangerous ambiguity of love.

Transgressing on my musical colleagues' territory may be forgiven in the case of this hybrid form, opera. Actually a Music Director at Covent Garden and an early champion of Debussy's *Pelléas*, Messenger performed as a director, a pair of quizzically cocked ears, as sardonically expressive as any seen on a bipped critic. The best in question gave a number of ill-tempered shrugs in its final chorus before a phlegmatically inconsistent audience. Though Alain Paris's conducting was much too rigid for the singers, the orchestra played well and the chorus, trained by John S. Craven, was excellent. A British presence still lingers in Strasbourg after all.

of the aristocrat who poses as a shop-girl to observe her fiancé. The latter was a young American, Malcolm Walker, who will tour with the Glyndebourne *Carmen* in Peter Hall's production this autumn. Possessor of a light, French-schooled baritone, tending slightly to strain at the top, he may be the best-looking tenor around.

The production's naturalism was of the sort where a grimly determined child plays purposefully with a ball in the background and waiters cross the stage from time to time in self-consciousness. Disneyland effects were not avoided by the bright sets and costumes. The mixture of eagerness and apprehension on each singer's face at the end of a song was endearing; so were the untempered reprises of the jolly staid chorus before a phlegmatically inconsistent audience. Though Alain Paris's conducting was much too rigid for the singers, the orchestra played well and the chorus, trained by John S. Craven, was excellent. A British presence still lingers in Strasbourg after all.

## Andromache/Donmar Warehouse

Michael Coveney

Cheek by Jowl's final presentation in their three-week Warehouse season is the British premiere of Racine's first great success, enthusiastically noticed by Martin Hoyle at last year's Buxton Festival. Orestes arrives in Epirus after the Trojan Wars to confront Hector's widow, Andromache, and is sucked into a vortex of passion and recommitment which also involves Helen's daughter, Hermione, and Achilles' son Pyrrhus, the king of Epirus.

Each of this quartet has to struggle with the past while suffering in the present, and each has an attendant confidant. The depth of the play's passion is thus sounded in a sort of mythical gavotte, old passions and current misunderstandings bouncing around like rubber balls, but rubber balls on strings.

This was my first exposure to Cheek by Jowl. The production, by David Crowley (director) and Nick Ormerod (design) is neat but unimpressive. It is hampered by a translation by David Byer that strains after idiomatic ease but which fails entirely to find any sort of

rhythm, let alone a rhythm suitable to Racine.

The show is set in a Mediterranean post-Second World War atmosphere. Orestes and Pyrrhus are costumed in white naval uniforms of the young Prince Philip. The ladies all look like the Andrew Sisters, hair bunched in nets, lips rouged, heels high. If the costumes had been competently executed, this might have worked. The acting, too, I found uncomfortable to watch with the exception of Amanda Harris's Andromache, combining forcefulness with haggardness, and Sadie Shimmin's spitefully vengeful Hermione.

In the end, though, this wide-spread reduction of classic plays for studio and touring consumption is not a trend I welcome. In the case of an author like Racine, the problems of rhetoric and staging are ducked, rolled into a cosy convenient fringe package with safety the norm and risk at a premium. The fringe methodology pioneered by Shared Experience and Joint Stock is in sore need of renewal.

WORLD ECONOMIC INDICATORS  
every Monday in the Financial Times

## Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

Jan 25-31

## Theatre

LONDON

Noises Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blake-more's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (838 9388).

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's roller-skating fully has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rustling around. Disneyland. Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 6184).

42nd Street (Drury Lane): No British play for years has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. American Clare Leach is a real find as Peggy Sawyer, and Margaret Courtenay has a field day (838 6186).

On Your Toes (Palace): Rodgers and Hart's 1928 musical is a genuine tonic. American jazz dance collides with the Ballets Russes. Gems include *There's a Small Hotel*, *Glad to be Unhappy* and the Balanchine ballet for Slaughter on Tenth Avenue. (437 6634).

Mother Courage (Barbican): Fine RSC presentation by the design team of Cats—John Napier and David Hersey—with Judi Dench as a scavenging, music hall and finally moving

Courage pushing her elaborate cart of stage machinery through the *How to Succeed in Business* by Howard Davies directed, good support from Trevor Peacock, Stephen Moore and Zoe Wanamaker. (828 8795).

Two Into One (Shaftesbury): Donald Sinden and Michael Williams head the cast of a blissfully funny farce by Ray Cooney in the old Whitehall tradition. An irate manager, Lionel Jeffries, declares: "There's far too much sex going on in this hotel, and I'm not having any of it." Not to be missed. (379 5369).

Waste (The Pit): Riveting RSC revival directed by John Barton of *Granville Barker's* 1907 once-banned play about a politician destroyed by an adulterous liaison leading to an abortion, a death and a suicide. Daniel Massey, Judi Dench, Charles Kay, Tony Church and Mark Dignam in a stellar cast. (828 8795).

The Hired Man (Astonia): Worthwhile new musical of Cumbrian agricultural and wartime life, based on a novel by Melvyn Bragg. Persuasive anthems, marches and chorales composed by Howard Goodall, with a high standard of singing and musical direction. Lyrics and book less secure. (734 4287).

NEW YORK

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T. S. Eliot's children's poetry set to trendy music is visually startling and choreographically fine, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6226).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the 30s incorporates guns from the original film like *Shuffle Off to Buffalo* with the appropriate brush and leggy hoofing by a large chorus line. (977 9928).

Teach Song Trilogy (Helen Hayes): Harvey Fierstein's ebullient and touching story of a drag queen from backstage to loneliness incorporates all the wild histrionics in between, down to the confrontation with his doing Jewish mother. (944 9450).

Dreamgirls (Imperial): Michael Bennett's latest musical has now become a stalwart Broadway presence despite the forced effort to recreate the career of a 1950s female pop group, a la Supremes, without the quality of their music. (239 6200).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as audition numbers rather than emotions. (239 6200).

Noises Off (Brooks Atkinson): The closest Broadway gets to the British farce tradition is this import of Michael Fry's funny backstage view of all the slamming doors and dropping drawers. (245 3430).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2826).

Brighton Beach Memoirs (Neil Simon): If he wasn't sure before, playwright Neil Simon can expect a long run of his funny as well as touching childhood reminiscences now that the Neighborhood Theatre has generously decided to name the theatre after the generation's outstanding box office draw. (757 8446).

Genghis Glen Rose (Goldman): The Chicago cast from the Goodman Theatre provided David Mamet with a Pulitzer Prize for his latest work that pits fast-talking real estate salesman against the world and each other. (232 6200).

WASHINGTON

The Marriage of Figaro (Folger): The company's own adaptation of the Beaumarchais script will also use Mozart's music and de Pource's libretto in an ambitious eclectic production. Ends March 10. (240 4000).

Royal Shakespeare Company (Open House): With Broadway enthusiasm with the repertory productions of *Much Ado About Nothing* and *Cymbeline* de Bergerac, stars Susan Curren and David Jacobs are bound to have a successful Washington run as scheduled until Feb 17. Kennedy Center (245 3770).

TOKYO

Barfoot to the Park. The Japanese version of Neil Simon's play directed by Tetsuya Kobayashi. Long Run Theatre. Shinjuku-ku (Tokyo's new theatre district). (414 0041).

## Allied Irish Banks plc

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APR 1985



## THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

## Why a U.S. trip was no holiday

Robin Reeves on Align-Rite's training policy

"THERE IS a goldmine of talent here. The general level of academic achievement and technical disciplines is way ahead of California. I would have hired any one of the 160 for our California plant straight away."

The speaker was Jeff Lee, operations director of the newly opened Bridgend plant of Align-Rite Corporation, a California-based manufacturer of photo masks for the semiconductor industry.

The 160, almost all from Glamorgan Higher Education Institutions, had applied for the 50 jobs created as a result of Align-Rite establishing its European operational base at Bridgend. And 37 of the successful applicants did, indeed, have the opportunity to test their abilities at the California plant because the U.S. company decided to ship its Welsh recruits to its home base for a six-month training programme last summer.

The success of the programme can be judged by the fact that the Bridgend plant—officially opened yesterday by the Prince and Princess of Wales—has just two Americans to oversee operations as it goes into production.

Align-Rite's view of the 37 young Welshmen and women who went to California, was that they showed enthusiasm and tenacity in mastering what was for all of them an entirely

"FANTASTIC." "Can't fault it in any way." "I see the only way it should be done." These were typical reactions of those who undertook Align-Rite's training programme.

For Huw Fraser, 24 (right) what he describes as "an exceptionally interesting job" arrived after eight months and dozens of job applications. His grasp of the technicalities of the business so impressed the company during his Californian stay that he was given the task of carrying out acceptance trials there for \$4m of equipment now installed in the Welsh plant. He now heads the computer aided design department—yet with an OND in engineering and a subsequent degree in mechanical engineering from the Polytechnic of Wales, near Newport, he saw a career originally in production

engineering, and certainly not in computing. A careers talk by Jeff Lee prompted Roz Davies (far right) to apply, and to her surprise she was accepted. "I thought they really wanted



L to r: John Traub, Meirion Lewis and Jeff Lee with (seated) James MacDonald, the U.S. company's president

business studies. Half were men and half women mostly in their late teens or early twenties and coming from an area with a 20 per cent unemployment rate, a large number had been looking for a job for periods of up to a year.

Lee's view of the calibre of the applicants is shared by his colleague, John Traub, who decided to come over to manage the Bridgend plant because he and his wife felt that their children would have a far better education in Wales than back home. Traub is now managing director at Bridgend.

To allay any anxieties, the company laid on a reception in a Cardiff hotel, before departure, to explain to parents precisely what would be happening to their sons and daughters.

They were housed in a flats complex close to the Californian facility and training took place



people with a computer or maths background," says 20-year-old Roz, who with nine "O" levels and "A" levels in English, Sociology and Scripture, was set on a teacher's training course

She found the Californian training schedule harder than she expected, but performed well enough to end up as head of the department that shrinks down silicon chip designs to their final size.

## A British military theory finds favour among Japan's businesses

Nigel Campbell explains the popularity of the Lanchester strategy

THE CONNECTION between F. W. Lanchester, who designed one of the first British cars, Admiral Lord Nelson, the famous British naval hero, and a modern Japanese marketing consultant is not one that immediately springs to mind. And yet to the Japanese business community this eccentric link is becoming increasingly familiar as managers learn of the military strategy used by all three to great effect.

The consultant in question is Nobuo Taoka, who, since its foundation in 1976 has turned his firm, Lanchester Systems KK, into one of Japan's leading marketing consultancies. His company bases its advice entirely on Lanchester's strategy, a strategy of military confrontation developed by the British engineer and mathematician F. W. Lanchester which adds considerable weight and precision to the well-known American principles of market segmentation and "niche strategy." Since its emergence from the shadows of history in the early 1970s, Lanchester's strategy has reinforced the Japanese tendency to adopt a "laser beam" approach to market penetration into one precise segment after another, until the onslaught becomes a veritable "cascade" into the market as a whole.

It was quite by chance that Taoka came across a cursory reference to Lanchester's Strategy 30 years ago in a Japanese government document. He was intrigued to discover that it had been used by the U.S. Navy against the Japanese during the war in the Pacific. Along with a colleague, Taihobon Onoda, he began seriously to research Lanchester's military principles and to develop ways of applying those principles to business competition.

Over the past 13 years, Taoka's ideas have become well-known and widely accepted in Japan. Tokyo bookshops have shelves full of his works, including such titles as "Lanchester: An Introduction to the Strategy" (published in 1972), and more recently, "Practical Applications of the Lanchester Strategy" (1982). Total sales of his books have reached over 1.5 million copies and, on top of that, 1,000 copies of a three hour long tape slide lecture have been sold to companies throughout Japan.

Taoka's following among the Japanese business community is such that two Lanchester Clubs have been founded, in Tokyo and Osaka, at which the practical applications of Lanchester's Strategy are regularly discussed by senior executives from large organisations such as Matsushita, Sumitomo and Kanebo cosmetics, as well as from smaller enterprises.

A latterday Leonardo da Vinci, F. W. Lanchester was responsible for far more than the construction in 1985 of the first in a line of pioneering British cars. He filed more than 400 patents and wrote on such diverse subjects as music, poetry and aerodynamics. It was during the great war that he published his work on the theory of conflict.

### Man-to-man

He developed two laws to govern military combat. The first applies to ancient warfare where the battle is a series of man-to-man duels. In this case the fighting strength of an army is proportional to the efficiency of its weapons times the number of troops. The second law applies to modern warfare. Here, the fighting strength of an army is proportional to the efficiency of its weapons times the square number of troops. The square function arises because in a modern battlefield concentration of fire power is possible and the larger army is able to wipe out the smaller army at a much greater rate than might casually be supposed.

Based on Lanchester's work, Taoka has built a quantitative framework for the analysis and formulation of market share strategy. It gives particular strategic significance to certain market share targets, to the degree of market share differences between competitors, and to the overall market share "patterns" that these create.

The over-riding message from Lanchester's second law is the importance of concentration. Although Lanchester was the first to show the effects mathematically, the importance of concentration has been known to military and naval commanders down the ages. Intelligence reports suggested to Lord Nelson that he would

have fewer ships at Trafalgar than the combined French and Spanish fleets. If he did battle in the conventional manner, he would be defeated. He therefore planned to sail his ships through the middle of the enemy fleet. Having boldly cut the enemy in half, he then planned to concentrate his ships on encircling and attacking one half of the opposing fleet. With the square law in his favour, he would achieve such a crushing victory over one half of the enemy fleet that he would still have enough ships to take on the second half with some hope of success.

For today's business strategist, intent on entering a new market, the concept of concentration by splitting the enemy force, and attacking one part at a time, is one of the most important to be derived from Lanchester's Strategy. Another is the principle of aiming for dominance, which follows from the extra stability gained from a high market share. The third is the principle of target separation. Strategy must distinguish between smaller competitors, which can be attacked, and larger competitors against which the company must protect itself.

Combining the principles of dominance and concentration, it becomes eminently clear that market penetration depends on building a series of strong positions in different segments of the market. Wherever possible, Taoka recommends dividing the market geographically, as well as by product and consumer category.

This was part of Canon's strategy against Rank Xerox in the UK in the late 1970s and early 1980s. First its resources were concentrated on Scotland. Having captured about 40 per cent of the market, Canon began to attack selected and tightly defined regions in England, before making a determined push in London with a numerically much larger sales force.

Having penetrated the market by achieving dominant positions in a series of geographic markets the newcomer is then ready to invest more heavily in product development in order to broaden its range of product markets and consolidate its position. Persistently dominant market leaders combine all three strate-

gies—they have national coverage and distribution, and concentrate particularly hard on product development and differentiation. Thus Pedigree Petfoods has used its comprehensive product range and regular launch of new products to hinder attempts by Unilever which possesses low-cost raw materials and considerable marketing strengths, to penetrate the British petfoods market.

These strategies can be further refined by considering the most appropriate course of action for companies, with various rankings within different market share patterns. Take the strategy for market leaders. At one end of the scale—a "premium" market where it has over 42 per cent and fulfils other conditions—it can rely mainly on innovation and product development to defend its various market segments. But at the other extreme, where no company has over 28 per cent of the market, the market leader must take all sorts of action to achieve a more stable position. This may include trying to acquire competitors, and taking advantage of newly emerging parts of the market to make a pre-emptive strike.

### Segments

The strategies for companies ranked number two, three or four are roughly similar to each other in all of the market share patterns. Like newcomers, they must look for segments of the market which they can dominate, and which wherever possible are insulated from the attack of stronger companies. This may involve attacking other "followers" in order to build a stronger position for the final attack on the market leader.

Of course, business strategy is more than just market share strategy. But given the emphasis which the Japanese place on this aspect of corporate strategy it is unfortunate that Lanchester's followers in the West are largely confined to the narrow worlds of mathematicians and operations researchers.

Dr Nigel Campbell is a lecturer in strategic management at Manchester Business School.

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Wednesday January 30 1985

# Challenge for the City

THE White Paper proposing a new framework for investor protection in the UK comes just in time. Existing legislation is outdated and incomplete. And the upheaval which is now changing the shape of the City of London has added real urgency to the debate, since the present rules are not able to cope with the new competitors and trading practices which are emerging.

Although there are reservations about the structures being proposed by the Government, there are no quarrels with its guiding principles. These include a welcome emphasis on maximum disclosure and competition in order to give rein to market forces. The objective is to produce a clearly understood set of general principles which will be rigorously enforced and which will ensure fair treatment between different products competing in the same market. It is also right that self-regulation should play an important role.

The proposals will make it an offence to engage in a broadly defined range of investment activities without official authorisation. The powers to provide such approval will be ultimately with the Secretary of State, but in practice he will delegate them to separate regulatory bodies which will have considerable autonomy and be manned largely by practitioners. The Government has an open mind about whether there should be two such bodies — splitting packaged investments like unit trusts and life policies away from the rest of the market — or one. Since the memberships would be bound to overlap considerably, there is a strong argument for just one.

## Limited powers

Whatever the number, the new bodies will be unique hybrids. It is unprecedented for a statutory power of authorisation to be given to a private-sector body.

Once they are up and running, the Secretary of State will have limited powers to change their rules, unless they are deemed anti-competitive or clash with the UK's international obligations. He will be able to withdraw his authority only if the new bodies fail to fulfil their prescribed task. He will be able to hire and fire the chairman of the securities

agency, in consultation with the Governor of the Bank of England, but the Governor will have the final say in the appointment of other board members.

Behind this approach lies the belief that a private-sector body will be better equipped to react quickly to a fast changing market place than a statutory agency, which would be more directly answerable to the Government. It should also be less bureaucratic, and the costs will be met by users rather than taxpayers. The system has been designed to make it difficult for future governments to change its character without new legislation. It has also been aimed at securing the support of the City, which will have to provide most of the necessary resources.

## Checks

The argument against this is that a system which is run mainly by market practitioners will be captive to those whom it is supposed to be regulating, and will fail to take account of the broad public interest. The regulators will be unwilling to make waves since they will be standing in the water themselves.

With this threat in mind, the White Paper puts forward some important checks and balances. Board members will include users and lay members as well as practitioners, and their rules will be scrutinised for anti-competitive elements. The boards' annual reports will be laid before parliament, and an independent tribunal will be set up as a final court of appeal against the boards' rulings.

We have argued in favour of an independent statutory agency rather than the Government's approach, on the grounds that such a body would be better equipped to handle the powerful financial conglomerates which are emerging in an increasingly international market place. The bill is now squarely in the City's court. If the White Paper is to be credible, the City will have to show in the next few months that it is willing to commit its own resources — both in terms of money and high-grade personnel — that will be needed to make the proposals work. The chairman of the securities board, who should be appointed within a few weeks, will have an absolutely key role.

# No consistency on aid policy

THE British Government's approach to overseas development appears to revolve around three basic precepts: to further British commercial interests in the Third World; to encourage more market-oriented economic management within individual developing countries; and to concentrate aid on those countries which are truly needy and are likely to make productive use of British resources. By the end of this week, the Government will have stood all of these principles on their heads. It is expected that it will participate in a new development facility being organised by the World Bank to assist African countries which agree to undertake major programmes of economic reform.

The Africa facility is likely to be launched at a meeting of aid donors in Paris tomorrow and on Friday, but there is little chance of the World Bank realising its hopes of raising \$1.5bn spread over three years. This was originally considered to be the bare minimum the new fund would require to make a significant impact on living standards and policy reforms in sub-Saharan Africa. Indeed, it is now probable that the Africa Facility will be created with the support of only one out of the five leading industrialised countries — France.

## Cutting back

Britain, Germany, Japan and the U.S. have all endorsed strongly the philosophy of tying development aid to major economic policy reform. The new facility is being proposed precisely because of the World Bank's perception that the current crisis in Africa presents an unprecedented opportunity to win the acceptance of new economic policies in African countries where markets and competition have been anathematised for 20 years. Nevertheless, it appears that four countries will be unable to find the relatively small sums — no more than \$50m a year each — required to join the new facility.

The U.S. response has at least had the virtue of consistency and plain speaking. The Reagan Administration has strongly opposed expansion in the World Bank's financial resources and was largely responsible for the situation which made the Africa programme necessary — by cut-

ting back its contribution to the International Development Association, the soft-loan arm of the World Bank.

Having cut the IDA down to \$9bn from the \$12bn demanded by all the other aid donors, the U.S. has made plain from the start that it wanted more direct control over its foreign aid spending.

The positions of Germany and Japan are less rigid, but still retain an element of consistency. Although these countries originally supported a \$12bn IDA, they blocked a bid last year to supplement IDA's \$9bn resources with a further general fund, to be contributed on a voluntary basis by non-American donor countries. It was never likely that they would respond enthusiastically to an Africa facility, particularly because sub-Saharan Africa is seen in both Japan and Germany as a pre-dominantly French and Anglo-Saxon sphere of influence.

The British Government's attitude, on the other hand, is simply incomprehensible. Britain was in the lead last year in urging the creation of a special fund to top up the IDA. The Foreign Secretary has since confirmed that \$200m has been notionally allocated in the foreign aid budget in case it is needed to supplement IDA's resources in the future.

The only coherent justification the Government can give for its reluctance to join the Africa facility is its desire to reduce the proportion of multi-lateral spending in its aid budget — running about 47 per cent, well above the international average of 31 per cent. But why should Britain prefer bilateral to multi-lateral aid? If it is to promote British exports, then Britain's key position in African markets should in any case bring benefits to exporters, from spending by the World Bank through an Africa Facility, which may well limit procurement to countries which participate in the aid.

If the aim of bilateral aid is to ensure recipients follow appropriate policies, then the Government surely cannot believe other sovereign nations will be more willing to accept advice from British civil servants than listen to the World Bank. The arguments are overwhelming for Britain to support the creation of the new Africa Facility.

BRITAIN'S National Coal Board may be about to win the most bitter industrial dispute for decades. But a further, tough — some say insurmountable — task will remain. This is to show that it has a social conscience in easing the problems of communities whose pits it closes.

Belatedly the NCB is having a go, by setting up a subsidiary, NCB Enterprise, to help create new jobs where it has axed the old ones. But even some senior Coal Board executives have private reservations about how much can be achieved.

The company has been operating since October with a budget of £10m, of which nearly £700,000 has so far been committed. Eventually its funds may be raised to £25m. Its real test will come when the strike ends.

The Board is hoping for a surge of applications for re-training or help in setting up businesses from the 20,000 miners who have expressed interest in redundancy payments of up to £33,000. It also wants to attract outside companies.

Old hands in the job creation game say the NCB faces frightening problems. For one thing there is far less mobile investment about than three years ago, and hence competition to attract it. For another, it wants to lure companies to villages where morale may be low or industrial relations soured by the acrimonious strike.

Areas like that around Cortonwood in South Yorkshire, for example, whose proposed closure sparked off the strike, are littered with derelict pits, coke plants, steel mills and slagheaps — the detritus of the industrial revolution.

It will be hard enough to attract conventional enterprises, let alone those in high-tech electronics. Says one observer: "I wouldn't advise a business to go to a mining village now."

Another adds: "Coal miners are unlikely in the main to turn out to be good entrepreneurs. The whole system has been dominated by a paternalistic employer."

Mr Merrick Seaton, chairman of NCB Enterprise, and Coal Board member for personnel, disputes this gloomy view. He says miners are resourceful and self-sufficient. The NCB is latest in a line of large companies to devote resources to job creation. In the private sector Marks and Spencer, Shell, ICI and National Westminster Bank are among those which have contributed to local initiatives, though in aggregate,

funds remain in relatively short supply. According to an estimate by Business in the Community — set up to encourage local involvement — British companies probably spend about 0.1 per cent of pre-tax profits on community projects compared with 2 to 5 per cent by some U.S. companies.

NCB Enterprise, meanwhile, is taking advice from BSC Industries, the job-creation company which has spent or invested about £50m since it was set up 10 years ago by British Steel. BSC Industries claims to have been outstandingly successful. It has helped create more than 20,000 jobs so far and expects to add another 16,000 by 1986.

The Coal Board would be pleased if it could emulate that. But it remains a big if. BSC's problems were huge in scale, but many of the steel closures

## AFTER THE COAL STRIKE



# New jobs: the battle to keep communities alive

By Brian Groom

were in sizeable towns with a tradition of union co-operation and reasonable communications — not small, isolated villages at the end of narrow, winding lanes. It also started earlier.

BSC Industries provides another lesson: however successful these kind of job-creation efforts, they fall far short of a complete answer to the unemployment problem created by closures in heavy industries. Many of the former steel towns still have jobless rates of more than 20 per cent.

Take Corby, for instance. Thanks to the combination of a central location and the kind of financial incentives normally available in more remote areas, the town has undoubtedly been successful. The local development centre, supported by the public authorities and BSC Industries, has attracted £500m of state, European Community

and private investment creating 6,000 new jobs.

The town now has 350 companies, of which only 70 predate the closure of the steel works four years ago. The closure of the BSC works and allied industries destroyed 12,000 jobs and pushed Corby's unemployment up from 8 to 22 per cent — but by last summer it was back to 16 per cent.

No one, however, claims to be fully satisfied. A redrawing of the travel-to-work area has pushed unemployment up again to 20.2 per cent.

Some observers are surprised that the NCB did not set up a joint venture with BSC Industries, and believe the reason was that the Coal Board desperately wanted to be seen to be doing something of its own. Mr Seaton denies this, saying the NCB scheme is independent because it will be different

in timescale and geographical spread.

NCB Enterprise is, nevertheless, learning lessons from its steel counterpart. BSC Industries will help the Coal Board by training NCB personnel, and is helping it evaluate major projects.

Five years ago BSC Industries switched from easy leasing deals (which were virtually grants) to loans. It thus became cost-effective, cutting its contribution per job created from £1,400 to £500.

NCB Enterprise plans to provide equity or loan finance, and to monitor companies closely. It also intends to help businesses with premises through rent subsidies or converting ex-NCB buildings.

The NCB also intends to support or create local enterprise agencies (BSC Industries is independent because it will be different

its 16 "opportunity areas" but supports independent agencies there). The Coal Board has already agreed to back 17 of these, and plans eventually to support a network of 25.

Outsiders say the Coal Board was unwise to insist that companies qualifying for assistance should be "firmly committed" to drawing at least half their workforce from former NCB employees.

BSC Industries power insists that ex-steelworkers should be employed, preferring to create job opportunities of any kind in areas where there have been lost. Now NCB Enterprise is prepared to be more flexible.

Critics still fear the NCB scheme will encourage miners with no entrepreneurial experience to sink their redundancy money in dubious ventures.

A key question is how training are the new jobs. Trade unionists make constant claims about "cowboy" employers who set up paying low wages and fire when the incentives run out. Corby trades council says many factories are paying wages of £5.00 a week.

Mr Fred McShenagh, who is in charge of the town's development centre, secures the "cowboy" charge. The local failure rate of 20 per cent among new ventures is similar to that of BSC Industries in general and below the national average of a third.

In BSC Industries' case local job displacement has probably been small — some towns were so dependent on steel that there was little other industry to displace. On the other hand there has been a shift of jobs between different areas of the country.

The evidence is sometimes confused. One fire appliances maker cut its workforce from 500 to 150 when it moved from 500 to Ebbw Vale, but BSC Components expanded from 600 to 1,150 employees when it moved from London to Corby.

NCB Enterprise is aware of the dangers. It will try to create genuine jobs by linking up with the Manpower Services Commission to meet some of the skill shortages which have appeared in the economy.

More ambitiously, NCB Enterprise is trying to identify products which could take the place of imports.

The NCB Enterprise will never completely offset the effect of pit closures. The best it can do is bring hope that a limited amount can be done to reverse the climate of decline and despair. But if it succeeds, that will be a lot better than nothing.

Nick Garnett

## WHY SOUTH HUMBERSIDE'S DREAM HAS NOT YET COME TRUE

IN THE autumn of 1982, Mr Patrick Jenkin, the then Industry Secretary, opened a collection of 30 workshops set up by BSC Industries in the South Humberside steel town of Scunthorpe.

The workshops stand in the shadow of the defunct Normandy Park steelworks, shut the previous year with the loss of 4,200 jobs in a rundown of steel employment that has cut the corporation's Scunthorpe workforce from 20,000 to 7,400 in six years.

In front of the TV cameras, Mr Jenkin acknowledged that the workshops could play only a small part in job creation, but he hoped they would be the seedbed for some companies to expand.

Since then it is clear how painful job creation has been.

For the unemployment rate in what was a boom town in the 1970s remains stubbornly high at 25 to 28 per cent. In the meantime, some tentative conclusions can be drawn which may be relevant to NCB Enterprise.

● Very few of the 65 businesses which have tried their hand in the workshops have been set up by ex-steelworkers. Most remain one or two-man businesses with some failures. Moreover, almost no ex-steelmen have been involved in the creation of businesses assisted by the South Humberside Business Advice Centre (SOHBAC) formed with BSC assistance in 1983 to stimulate employment.

Of the 85 projects helped by it, only one — three men dismantling vehicles — involved ex-steel corporation workers.

Experience suggests the work ethic and mores bred in a big steel plant do not sit easily with the demands of a small business. "It's difficult to create budding entrepreneurs out of ex-steel people," says the local chamber of commerce.

● The business advice centre is not in the business of making steelmen into entrepreneurs, but in "creating employment opportunities" in the widest sense. SOHBAC has helped a significant number of companies to expand or come into South Humberside, but it is questionable what direct benefit has accrued to former BSC workers from the 400-500 jobs created in this way during the past 18 months.

A very high proportion of these new jobs — and of those

created by the expansion of indigenous companies — are for women. The largest company assisted by the business advice centre, for example, is Intermoda, a Nottingham-based clothing manufacturer employing 130, mainly female staff, in Gainsborough.

SOHBAC has assisted many smaller and generally male employing companies in Scunthorpe like Vogt Timber, an engineering company designing roof trusses and Topykote, a plastic and resin-coating concern. These companies, though, require some skills most steelworkers do not have, and it is unclear how many ex-steelworkers have retrained for such jobs.

● New jobs have come from two major sources. One is the expansion of sizeable estab-

lished companies which are often absent in the older coal mining areas. In Scunthorpe these have included Sooner Foods employing 1,600, Corah making ladies undergarments and blouses and systems manufacturer J. Jellison.

The other is from companies arriving in Scunthorpe on the back of regional aid and including Hygena and the Christie-Tyler furniture subsidiary ELFE. It will become more difficult for Scunthorpe and other areas suffering economic stress to attract new industry, however, if the Government phases out or steeply downgrades regional assistance.

● Women have become much more influential as breadwinners. Many ex-steelworkers who took redundancy appear to have either dropped out of the jobs

market, settled for retirement or are still looking for a job. "The great dream that they could set up their own business has gone bust," says one local councillor.

Some companies begun by former BSC employees have got off the ground. Trevor Milson, for example, has an expanding brick-laying company — but his biggest customer is BSC itself, which has contracted out refractory work.

Don Ross is a director of Mulvin Engineering, a dismantling and building company based on the Normandy Park workshop site which has expanded to 23 employees in two years. Mr Ross, however, was a project manager at BSC, not a labourer.

## Well-set in Whitehall

Fashionable commentators draw a grim picture of the civil service in Britain today. They tend to depict a demoralised army on the retreat from politicians' attacks, its morale sapped by job losses, low pay, ethical anxieties and repeated molehunts.

But this, it seems, is mere conjecture. The truth is our bureaucrats are blooming. They may not look it as they pad, pale-faced and brow furrowed, in their (generally) cramped Marks and Spencer suits along the corridors of power, but Whitehall's mandarins are quite disgustingly healthy. And that is official.

A report — The Health of the Civil Service — published yesterday, spells out the rough, robust facts and figures: The premature death rate of UK civil servants is little more than half that of other comparable age groups in the country.

Most civil servants can expect to draw their pensions for at least 13 years after they retire. They are off sick only about half as often as other workers,

## Men and Matters

and the rate of absence is falling.

Only six out of every thousand civil servants retire prematurely because of ill-health each year.

Little wonder that the Civil Service Medical Advisory Service, which produced the report, allows itself a gentle pat on the back.

But then again, civil servants have been taking their health seriously for some time. It was over 250 years ago — in 1723 — that the Board of Customs and Excise first appointed a doctor, on a part-time basis, to look after its employees.

As the report says, since then the "concept of medical care for civil servants has developed steadily."

## Amazing feats

Every time I think I have written the last word about Japanese enterprise and ingenuity, up pops another example to confound me.

This time it comes from a Japanese chemical company called Chuoel Spotting. A barely noticeable gap in the market, it has produced a liquid which, when applied to your legs, will prevent your socks slipping down.

According to KEA Development, the UK-based consultants, the new product, "Quick Touch" comes in a plastic container with a sponge tip. A few dabs, the company claims, will hold socks in place all day, even during strenuous exercise.

Executives suffering from cold feet as opposed to limp socks, however, should turn instead to the U.S. for help from a new product called "Fire Feet."

Made from herbs, the stuff

can be sprinkled into socks and will keep your feet warm for up to a month, the manufacturers claim.

## Space ban

The French get a little upset from time to time about the infiltration of Anglo-Saxon culture into their way of life — and no wonder.

Telephone callers waiting to be connected at one Paris office are entertained by a rendering of the mournful, backwards-glancing ditty, "Yesterday" by Paul McCartney, of Beatles fame.

Not quite what you would expect from one of the country's most thriving and progressive organisations, the national space agency.

## Smoke signals

The message that smoking is bad for business is getting through to more British companies.

Employees at Whitbread, the brewer, Hoechst, the pharmaceutical firm, and an investment bank that prefers to remain nameless, have this week started a two-month course run by an organisation called Habit Breakers.

Such is the enthusiasm at Whitbread for the scheme that management is offering to reimburse half of the course fee (about £200) to those who keep off the weed for six months.

Simon Morgan, a self-confessed ex-smoker, who runs Habit Breakers, is hard-hitting when he points out to managements just what the smoker can cost a company.

"Forty per cent of heavy smokers die before retirement

## Latin style

Mrs Thatcher's advisers have made an interesting move that shows a certain sensitivity to the waning influence of Opposition leader, Neil Kinnock.

She has agreed to meet Sergio Ramirez, Nicaragua's new vice-president, who is to make an unofficial visit to London next month.

The Sandinista government approached Number Ten hardly expecting a positive response in view of Mrs Thatcher's close support of President Reagan's cool policies to the left-wing Nicaraguans. To the Sandinistas, surprise, however, Downing Street extended an invitation within a week.

Mrs Thatcher's response is seen as not unconnected with Kinnock's well-publicised presence in Managua for the inauguration of President Daniel Ortega recently. Kinnock even managed to make world headlines when dragged from his bed to meet the Cuban leader Fidel Castro. Watching from the sidelines as Mrs Thatcher meets a man from the government that the U.S. believes is bent upon exporting revolution, will be former prime minister Edward Heath.

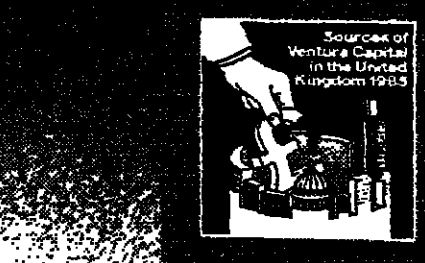
Quietly Heath has upstaged both Kinnock and Thatcher. He has established through his Brandt Commission activities a friendship with Castro that last autumn led to him visiting Cuba.

## Golden rule

The directors of a City bullion firm thought it might be useful to have a slogan to promote business and asked the staff for suggestions. One entry was: "Ingot We Trust."

Observer

# Nothing ventured — nothing gained



Stoy Hayward, a leading firm of Accountants, Auditors, Advisers and Management Consultants, is now raising finance for companies that have large and small. Our 1985 edition of Sources of Venture Capital in the United Kingdom will be published on February 19th, to coincide with the Third Venture Capital Conference at the Institute of Directors. Copies of the booklet will be distributed to all delegates, but are also available, by post, charge, to anyone completing and returning the coupon.

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IN THE portrait gallery of former incumbents of the Spanish Foreign Ministry in Madrid one figure stands out from the rest. Unlike his distinguished colleagues who have gone down to posterity in language drawing room portraits, General Francisco Franco is depicted standing pugnaciously with one hand in pocket in front of the Rock of Gibraltar, the monument to his major achievement. For it was Sr Castiella who, as General Franco's Foreign Minister, closed the border between Spain and Gibraltar in 1969 in what proved to be a vain attempt to force Britain and the population of Gibraltar to transfer sovereignty over the Rock to Spain.

Today's intensive negotiations are being made for next Tuesday's full re-opening of the border following the agreement reached in Brussels last November by Sir Geoffrey Howe, the British Foreign Secretary, and Sr Fernando Moran, his Spanish opposite number. Spain's previous hard-line stand is no more than a bad memory.

Though it would be an illusion to believe that there has been any fundamental change in Spain's attitude towards sovereignty over Gibraltar, under Sr Felipe Gonzalez's Socialist government it has radically modified both its strategy and tone. General Franco's notorious dictum that Gibraltar would fall into Spain's lap like a ripe apple if enough pressure was exerted is considered nowadays to have been a complete misjudgment.

Instead of ripening, the fruit has become harder and the Gibraltarians more resentful as a result of the Spanish freeze, which has caused both economic and social hardships on the Rock.

No one is more aware of the counter-productive effects of Spain's previous policy towards Gibraltar than Sr Moran, whose "softly spoken" approach has contributed in no small measure to the current détente between Britain and Spain over Gibraltar.

Sr Moran, at the risk of losing political support at home, has not hesitated to proclaim publicly that the solution to the Gibraltar problem is necessarily a very long-term affair and that nothing can be achieved without the consent of the population of Gibraltar.

That kind of language created the right climate for the Brussels agreement, which involved important concessions by both sides. In return for the lifting of all border restrictions—in 1982, the Spanish Government had made a first gesture by opening the border to pedestrian traffic only—Britain accepted for the first time that the issue of sovereignty over Gibraltar would be discussed at negotiations between London and Madrid.

For the Spanish this was a

## The full re-opening of Gibraltar's border

# Ready to roll on the Rock



● Sir Geoffrey Howe (left) and Sr Moran

Robert Mauthner, Diplomatic Correspondent, considers the issues likely to be raised at next week's talks in Geneva

real breakthrough. The Lisbon Declaration of April 1980 also contained a similar trade-off, but stated that negotiations would be held to overcome all the differences between Britain and Spain on Gibraltar. There was no specific mention of the word "sovereignty" however, a fact which led to the disavowal of the agreement by public opinion and the failure by the Spanish Government to implement it.

Having succeeded in persuading Britain to accept the principle of discussions on sovereignty, there can be no doubt that the Spanish delegation at the Geneva talks, which have been timed to coincide with the opening of the Gibraltar border, will bring up the issue at the very beginning of the meeting.

The present Spanish Government does not, in fact, question Britain's legal claim to Gibraltar, which was ceded to it under the Treaty of Utrecht of 1713, though Madrid does dispute Britain's right to the isthmus on which Gibraltar airport has been built.

Spain's own claim is based essentially on geographical and historical arguments. Gibraltar is described as "Europe's last colony"—which, it is felt in Madrid, should carry as much weight now as a 270-year-old treaty.

Despite Sr Moran's emphasis on gradualism, collaboration and consent by the Gibraltar population, the British delegation in Geneva, which will be led by the Foreign Secretary, will hardly be surprised by Spain's early concentration on the most delicate of all the

aspects of the Gibraltar problem. A certain ritual has to be respected when two nations have not been talking to each other about their most burning mutual problem for as long as Britain and Spain have. Besides, both have their domestic public and political opinion to worry about, so a certain amount of initial posturing is in order.

For Sir Geoffrey Howe, who will have Sr Joshua Hassan, the veteran Gibraltar Prime Minister, at his elbow, the riposte to the presentation of Spain's case on sovereignty will be equally predictable.

No doubt, the voluminous legal tomes on the Treaty of Utrecht and other relevant documents will make their dusty apparition at the Geneva conference table. But Britain's most telling argument is enshrined in both the Lisbon Declaration and the Brussels agreement of November 1984, which has resurrected the earlier document.

The British Government will fully maintain its commitment to honour the wishes of the people of Gibraltar as set out in the preamble of the 1969 Constitution, the Brussels agreement says.

The preamble to the Constitution, which granted substantial internal self-government to Gibraltar, states in the clearest possible terms that the British Government "will never enter into arrangements under which the people of Gibraltar would pass under the sovereignty of another state, whether democratically expressed wishes."

Since even the Spaniards admit that the people of Gibraltar, in their vast majority, are not in favour of a transfer of sovereignty from Britain to Spain, there appears to be little room for progress on this crucial issue for a long time. Paradoxically, that suits both governments, though Spanish officials would like rather than admit it in public.

The gradualist approach of the Spanish government to the issue of sovereignty is not based only on the conviction that this is the best way of winning the hearts and minds of the Gibraltarians.

Spain's policy is influenced at least as much by the realisation that an agreement on a transfer of sovereignty would immediately face the Government with a full-scale external and domestic crisis which could well undermine the very foundations of the young Spanish democracy. For King Hassan of Morocco has made it clear that he is waiting only for that moment to pounce on Spain's North African enclaves of Ceuta and Melilla.

The uncompromising official Spanish position is that the two enclaves are an integral part of Spanish territory and will remain so for ever.

As long as the British plug remains firmly embedded in the Rock, Madrid's position on the enclaves remains just about tenable. Once that plug is pulled out, Spain would find it much more difficult to counter Morocco's claims. What is worse, the Spanish Socialist Government might not be able to stem the right-wing nationalist tide which could engulf

the country in the event of any Moroccan military action to annex the enclaves.

Spain therefore needs time—perhaps as long as 10 years—to accustom its people that there is a logical and inevitable linkage between the problems of Gibraltar and the North African enclaves. The long time-scale envisaged should at least ensure that Madrid will not block progress on the more practical problems, such as air links between Britain, Spain and Gibraltar and economic, tourist, military and cultural co-operation, which both sides have agreed to discuss.

Britain, Gibraltar and Spain all believe that the opening of the border will lead to a big boost in tourism, with its usual economic spin-off, both on the Rock and in its depressed Spanish hinterland, the Campo.

The Spanish Government clearly hopes that the progressive economic integration of Gibraltar with the Campo will eventually lead to a political solution of the kind cautiously foreshadowed by Sir Anthony Kershaw, the Conservative chairman of the House of Commons' Foreign Affairs Committee. Gibraltarians, he said, eventually find it "possible" to live in a Spanish dimension, without losing their identity.

That phrase leaves many question unanswered. But it is at least a reflection of the more open-minded attitude now prevailing in both London and Madrid, and augurs well for the negotiations on practical issues likely to dominate the first phase of negotiations on Gibraltar.

## The Israeli economy

# The dream that can no longer be afforded

By Joyce Starr

ISRAEL'S PRESENT economic crisis was discovered by the international Press—and by most Israelis—between June and September 1984, when Israel's external debt reached the highest per capita in the world, inflation spiralled towards 450 per cent, and there was close to a \$1bn drop in reserves during a two-month period. Yet the economic woes that overtook Israel last year were not simply the result of poor policy planning or mismanagement during the late 1970s and early 1980s, nor even an inevitable consequence of the tremendous defence burden.

What went wrong? Israel's economic difficulties have roots in an economic structure predicated on a national commitment to European welfare state which is no longer viable. Despite the stunning economic successes of the 1950s and 1960s—rivaling even Japan—growth per se has never been the guiding philosophy or policy objective of any Israeli government.

The emphasis of the early years was on settling immigrants, providing jobs and housing, and increasing the availability of goods. Widely shared beliefs in welfare concepts thrust the government into all aspects of economic life. By 1976, the ratio of government expenditures to GNP was 97 per cent and half the labour force was serving in the public sector. Few non-communist governments could claim as large a role in their economies.

Defence and security requirements also led to major government involvement in the economy, with defence spending averaging about 25 per cent of overall government expenditures in non-war related years and almost half the total in periods of confrontation.

Government preoccupation with security and with the daily welfare of its people meant that little serious attention was devoted to the relationship between a sound economic structure and national defence, and the long-range survival of the nation in economic terms.

Economic activity and growth have been adversely affected over the years by a low rate of mobility resulting from labour contracts making it almost impossible to fire

workers, by enormous tax disincentives (the Israeli worker is the highest taxed in the world), and by annual army reserve duty for men between the ages of 21 and 35, for periods ranging from 45 to 90 days.

It is impossible to discuss Israel's economic policy without reference to the Histadrut labour union. The Histadrut was established in Palestine in 1920, preceding Israeli statehood by almost three decades, with a majority of its members active in the Labour Party. In addition to providing health, education, and welfare benefits, and to negotiating wage agreements, the Histadrut is the single largest employer after the Government—owning through a subsidiary holding company one of the country's two leading banks, an insurance company, construction

**Tax reforms will probably prove crucial**

firms, an industrial holding company and agricultural co-operatives.

Strikes in Israel are so common that Israelis like to joke to foreigners: "Sorry, the country is closed." The power of the Histadrut as labour negotiator and large employer makes economic manoeuvrability or belt tightening not only difficult, but nigh on impossible short of an external crisis such as war.

Last November General Yisrael Kessar, the Histadrut secretary, made it clear that the Labour-led National Unity Government could not expect preferential treatment from his organisation, although it is headed by his own party chief, Shimon Peres.

Significantly, 30 per cent of the Histadrut's membership in 1984 identified with the Likud, thus reflecting the union's entrenched position within Israeli society.

Mr David Levy, deputy prime minister under both the Likud and the present National Unity Government, is today the champion of the Likud bloc in the Histadrut and of Israel's "down-trodden workers."

With Histadrut elections planned for 1985, possibly in the spring, the Likud's leverage is expected to increase and with it Mr Levy's power as a potential spoiler of

the Government's austerity package.

A key challenge in the years ahead will be a dramatic restructuring of the economy so as to reduce the wide involvement or direct ownership by the Government and by extension the Histadrut—in almost every sector, while greatly expanding private sector opportunities and income. At present, more than 30 per cent of Israel's labour force is engaged in government service, as compared to 22 per cent in industry and 6 per cent in agriculture.

Tax reforms that reduce the burden on the worker will probably prove crucial to any effort to inspire higher productivity or to encourage the transfer of workers from government service to the private sector. Indexation of wages and particularly of financial assets, along with extensive subsidies on fuel and food, are throwbacks to the socialist dream that Israeli society can no longer afford.

The present Government is pinning its hopes for the future on high technology exports. But to approach the present goal of doubling high tech exports by the beginning of the 1990s, Israel must increase investment in industry by at least \$1bn each year.

The prospects for continued intensive government investment are not, in the face of impending budget cuts, terribly bright. Investments by the Israeli business community have been on a downward track over the past decade, largely because the private sector had to compete with the sale of government bonds, which are indexed and hence guaranteed against depreciation.

Thus, the main challenge facing the Israeli leadership is not only budgetary restraint but, perhaps more important, structural changes in the system that will expand the capacity of the economy, create incentives for economic growth and mesh defence and economic requirements.

"They must review the whole structure of their economic and political framework," acknowledged a senior U.S. Government official. "There is a lot of soul searching."

The author is Director of the Near-East Program of the Center for Strategic and International Studies at Georgetown University, Washington.

## Dual resident companies

From Mr D. Boyle

Sir,—Correspondents have questioned the balance of advantage to the UK (compared with the U.S.) in looking to limit the advantages derived from dual residence. It is worth remembering that under the 1945 UK-U.S. treaty, dual residence was denied to company incorporated in the U.S. That was changed in the 1975 treaty, presumably to encourage U.S. investment in the UK.

If the balance of advantage between the UK and U.S. were the reason for a change in the rules as to dual relief for dual residents, the Revenue could, on existing rules as to the determination of a company's residence, readily exclude many U.S.-owned companies—particularly U.S. oil companies—from UK tax. The consultative document does, however, state clearly (in paragraph 4) that the target is the finance company with no profits, and no economic activity, retaining funds to pay the interest in form which does not give rise to taxable profits in either jurisdiction. The document describes this as "artificial tax avoidance."

It is in considering remedies

## Letters to the Editor

that the Revenue does, perhaps, set itself on the wrong path. It rejects any denial or restriction of interest relief merely because the "taxpayer" is dual resident, but does not consider the extent (if any) to which the interest deduction could be disallowed under existing statutory provisions. Instead, the document proposes to disallow group relief for losses incurred by the dual resident company so as to remove the tax advantage from setting up such a company financed by borrowing but to allow it to companies which are "genuinely trading." Presumably it chooses this solution because in the first case there would be a double deduction but no subsequent tax charge, while in the second case the double deduction would be expected to be followed in due course by a double charge.

May we hope that the Inland Revenue will publish a summary of comments received on its proposals, and perhaps more importantly state whether steps

of a similar nature are to be taken by the IRS since it is very likely that there would be a risk of double denial of deduction. D. A. V. Boyle, 9, Allyn Road, SE21.

### Regional policy

From Paddy Ashdown, MP Liberal Spokesman on Trade and Industry

Sir,—In your excellent feature (January 25) about regional aid, you devote half a page to describing "What Labour would do" on this issue. It is a pity that you failed to give your readers the opportunity of discovering what the Alliance would do, especially since it was Liberal and SDP who forced a debate on the details of the new regional aid programme.

The Alliance also tabled a comprehensive motion emphasising "that a properly structured regional policy is essential to the regeneration of

Britain's industrial base," deploring the \$300m reduction in Government support for regional industrial incentives, and condemning "the inflexible use of travel-to-work areas as the Labour would do" on this issue. It has led to the exclusion from UK and EEC regional aid of some of the communities with the highest levels of unemployment and lowest standard of living. The motion called for the reversal of the Government's policy of denying to the regions and the local authorities the power to help themselves.

PADDY ASHDOWN, House of Commons, SW1

### The quest for English

From Sir Michael Wilford  
Sir,—I was astonished to see in your Men and Matters column (January 24) that Observer believes that the Japanese want to speak the "American sub-dialect" of English. Nothing could be further from the truth. Some, of course, do so, but the quest for English is paramount, and the results surprisingly good.

(Sir) Michael Wilford, Lords Bank International, 40-50, Queen Victoria Street, EC4.

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# FINANCIAL TIMES

Wednesday January 30 1985

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## Ford plans to cut costs in European operations

By Kenneth Gooding, Motor Industry Correspondent, London

FORD INTENDS to rationalise its European operations, shed unproductive capacity, cut employment and bring in more components and cars from low-cost countries as part of an "action plan" to reduce costs and become more competitive.

The company emphasises, however, that the plan will succeed only if European governments also take decisive action to improve the general environment for the motor industry.

In an "Action Plan" document, the company says: "If European governments ignore the current plight of the European automotive industry or fail to achieve the improvements necessary, Ford - and presumably others - will have to consider more drastic action that will tear at the fabric of Europe's manufacturing base."

This makes it very clear that Ford, in particular, would like much more help from governments to deal with "predatory" Japanese competition (which is the biggest single threat to the long-term survival of the European automotive sector).

Ford calls on European Community governments to develop effective protection from Japanese car imports and to establish rules covering Japanese inward investment.

"At a time when the Japanese are looking to export capital and gain entry into restricted markets, such rules are essential to avoid token assembly operations with low European and high Japanese content which will simply accentuate Europe's existing excess capacity problems."

The document was handed to the press yesterday by members of an inquiry team set up by the Greater London Council to look into Ford's operations.

The document was drawn up to brief senior personnel within the company but was not distributed to the British press because, the spokesman added, "we guessed it would produce an hysterical reaction about plant closures."

The document goes over much of the ground covered in recent months by Mr Bob Lutz, chairman of Ford of Europe, in public presentation. He has pointed to the excess capacity in European car manufacturing, severe competition, the huge losses incurred by the high-volume manufacturers at a time when they face major investment programmes and the extent to which government interference has added to the industry's difficulties.

The "Action Plan" is aimed mainly at reducing costs but also involves efforts by the company to accelerate quality improvements, to maintain the momentum of product introductions and to use new technology.

Dealing with the fundamental issue of costs, however, the document says: "Cost reductions will continue to be sought through manufacturing efficiencies and rationalisation opportunities; shedding unproductive capacity; headcount reductions; re-sourcing external purchases; and reducing the investment cost of bringing the product to market."

"Another method of reducing fixed costs is to share them, and Ford has a number of joint venture programmes under consideration. Also, in certain European markets, Ford companies are looking to lower cost offshore sources as a way to compete more effectively. The Ford sales companies in Scandinavia have each begun a programme involving Brazilian-sourced Escorts. These programmes are likely to be adopted by additional European sales companies."

The GLC team identified press shop and group tooling facilities at Dagenham in the UK, the Cologne engine plant in West Germany and the Genk assembly plant in Belgium as being vulnerable.

W. German car makers' plea on environmental rules, Page 2

## Paris plans further cuts in income tax next year

BY DAVID HOUSEGO IN PARIS

THE FRENCH Government said yesterday that it would cut income tax by at least 3 per cent in 1986, emphasising its intention to pursue its policy of reducing taxes.

M. Pierre Berégovoy, the Finance Minister, said that the 3 per cent surtax on incomes in the higher tax bracket would be removed. The planned tax changes would benefit all income tax payers, he added.

Officials said that this meant a minimum 3 per cent cut in personal income tax, which with the surtax reduction would cost the Treasury FF6bn to FF7bn (\$820m-\$725m).

The decision implies a further widening of the budget deficit next year although officials contest this interpretation. The exact size of the tax cut has still to be decided, how-

ever, as the Government is only at the preliminary stage of its 1986 budget calculations.

The tax cut next year would come on top of a 5 per cent cut in personal taxation this year as part of the Government's pledge to reduce tax and social security contributions as a proportion of gross national product from 44.7 per cent to 43.7 per cent. The effective cut in taxation is likely, however, to be smaller than this.

The Government last year managed to hold the budget deficit to about 3.3 per cent of GNP - or below the level that had been feared in mid-year but above the 3 per cent target officially set by President François Mitterrand. This year the Government has set a goal of reducing the deficit to 3 per cent of GNP despite the tax cuts.

The Organisation for Economic Co-operation and Development (OECD) does not believe this year's goal is attainable. Its forecasts - which take into account social security and local authority financial balances as well - show the public sector deficit rising from 3.3 per cent last year to 3.9 per cent in 1985. Further tax cuts in 1986 would push the deficit even higher.

French officials say, however, that President Mitterrand could set a goal next year of reducing the budget deficit next year to 2.8 per cent of GNP. The exact size of the tax cut would thus depend on decisions yet to be taken over the size of next year's budget deficit.

## Hanson Trust fails in £170m bid to take over Powell Duffryn

BY MARTIN DICKSON IN LONDON

HANSON TRUST, one of the most successful British exporters of the art of the takeover, yesterday failed in its £170m (\$189m) bid for Powell Duffryn, the UK distribution and storage group.

It is the first time that Hanson has lost a takeover battle since 1981, when its bid for G. H. Downing, a bricks and building materials company, was topped by Steetley.

When Hanson's all-paper offer closed yesterday afternoon, it had been accepted by 32.82 per cent of ordinary shareholders. That, together with the 3.89 per cent held by Hanson before the bid, gave it an interest in only 36.51 per cent of the equity. Acceptances were also received from 65.42 per cent of preference shareholders.

Analysts last night cited three main reasons for Powell Duffryn's victory:

● Hanson's refusal to raise its original offer, which it insisted valued the company fully.

● A spirited and well-timed defence by Powell Duffryn, including a revised dividend forecast last week that helped to retain the loyalty of institutional shareholders concerned about their income stream.

● Movements in the relative share prices of the two companies, which changed significantly during the course of the battle. When the bid was announced on December 14, Hanson's share price valued the offer at 385p for each Powell Duffryn ordinary, against a pre-bid price of 340p.

Over the subsequent weeks the share prices of both companies rose strongly, though Hanson's gained more, at one point giving its offer a

premium of some 20p over the Powell Duffryn price. The sharp fall in London share prices generally over the past few days narrowed the gap to less than 10p.

Powell Duffryn's share price fell sharply yesterday after the bid lapsed, reaching 385p before rallying to close at 395p, down 28p on the day. Hanson closed at 218p, down 1p on the day.

Hanson, which placed its 3.89 per cent Powell Duffryn shareholding with institutional investors at 385p yesterday afternoon, said last night that it had a very firm opinion of the value of the business and had not been prepared to raise its bid or to buy shares in the market above that level. Hanson pointed out that since the bid had lapsed Powell Duffryn shares had fallen back to near its original valuation.

## Plan unveiled to give British investors more protection

BY JOHN MOORE AND CLIVE WOLMAN IN LONDON

UNPRECEDENTED statutory powers for the supervision of Britain's financial services community will be given to two new regulatory bodies run by individuals from financial service groups. The details were unveiled yesterday by Mr Norman Tebbit, Secretary of State for Trade and Industry, whose department has published a policy document on plans for providing more protection for investors.

Financial organisations, ranging from merchant banks and large stockbroking concerns to small firms of investment advisers, are to be supervised in a formal regulatory framework.

Mr Tebbit told parliament yesterday that the proposals are designed to assist in the enforcement of regulation, deter fraud and malpractice, improve disclosure and lay down

the principles on which business should be conducted.

He said maintenance of high standards of business conduct could be discharged "much more effectively by those closest to the market - practitioners and their customers - rather than by government. Malpractice can be identified and dealt with more quickly by these people than by government regulators."

Mr Tebbit said he intended to "build upon what is best in self-regulation." He intends to propose legislation which will give the Secretary of State powers to grant authorisation to investment businesses. The powers will enable him to delegate the regulatory responsibility, including the power of authorisation, to one or more bodies composed both of those who provide and those who use financial services.

"Before doing so I shall be required to be satisfied on the composition, constitution and proposed rules of these bodies and I will have the power to withdraw delegated powers in the event that such a body fails to continue to meet the criteria," he said.

In the new regulatory framework two bodies would be created: a Securities and Investments Board, covering the regulation of securities and investments, and a Marketing of Investments Board, covering the regulation of marketing of life insurance and unit trusts. If the financial services industry and its customers eventually prefer a single body, the Government would consider this.

Editorial comment, Page 10; See Lex; Details, Page 26

## Thatcher faces censure vote over economy

Continued from Page 1

Mrs Thatcher defended recent actions on the ground that they were necessary to maintain financial stability and to keep inflation lower for a longer period than had been achieved by previous governments. She said that government action was designed to "impose financial discipline on all sections of the economy."

The Government has an overwhelming majority in the House of Commons with 141 more MPs than all opposition parties combined. The pound closed in London at \$1.1145, up 35 points from Monday. Gains against other European currencies also helped to push up the sterling index from 70.5 to 70.8.

## Opec accord expected

Continued from Page 1

branch and announce a supplier price of \$28.55 for January.

A senior Opec official warned yesterday that if the UK did not take the opportunity offered "then everything will be lost and the downward spiral will continue."

An oil trader in Geneva said yesterday that any Opec agreement along the lines under discussion would be received by the market as a good attempt to restructure its pricing system in tune with current world refinery techniques, which have increasingly favoured the use of heavy crudes.

Three Opec countries were holding out against the proposals when ministers opened their evening sessions.

Iran was insisting on no reduction in the price of Arabian Light equivalent to its own crude stream. Iran's own pricing policy is already

highly improvisatory, however, resting on granting large war risk subsidies, particularly to its big Japanese buyers. Moreover, Iran had been given dispensation to price its oil officially at \$28, and only recently increased its official price to \$29.11 as a political gesture in the run-up to this meeting.

Algeria was holding out against a proposal to cut its Saharan Blend from \$30.50 to \$28.50 because that official price is a key component in the pricing of its main hydrocarbon export, gas.

The Libyans were objecting because the proposals involve a new official price for their crude oil of \$29.15 and they were apparently not prepared to reduce their \$30.50 price to less than \$28.71.

Opec ministers are determined to reach an agreement at this meeting

## EEC farm spending up

Continued from Page 1

The increase in the cost of farm spending is largely attributed to attempts to reduce dairy and beef stock. The Commission has been stepping up export sales at reduced prices to make room in stores now nearing capacity.

Farm expenditure would be higher still, however, were it not for some savings on cereals and - consequently - pigmeat and poultry, where price relates to cereal feed. The high value of the dollar has reduced the gap between Community and world cereals market prices and hence reduced the level of EEC export subsidies.

The most widely acceptable source of extra finance would be to bring forward increased contributions from the member states, due to rise from the present 1 per cent VAT ceiling to 1.4 per cent on January 1 next year.

That is blocked by both West Germany and the Netherlands, which insist that increased contributions must be timed to coincide with the enlargement of the Community to include Spain and Portugal in 1986.

Sir Geoffrey simply insisted yesterday that all EEC members were agreed Britain should receive its cash this year and suggested that he was prepared to consider any arrangement which guaranteed that.

## Employers say UK exports gain from fall in £

By Max Wilkinson in London

PROSPECTS for Britain's manufacturing companies were improving strongly before the recent sharp rise in interest rates to 14 per cent, the Confederation of British Industry said yesterday.

In its latest quarterly survey published yesterday, the employers' group showed that the decline of sterling had helped to boost export prospects, while investment continued to increase. Export prospects are now said to be the best for seven years.

Mr David Wigglesworth, chairman of the CBI's economic situation committee, said that, although the steep rise in interest rates to 14 per cent was unwelcome, he believed the underlying trends in the economy remained strong.

He warned, however, that a prolonged period of high interest rates could jeopardise prospects for growth.

The survey of 1,560 companies showed improved optimism, increased output and rising exports. It was conducted in the first half of the month when sterling was under sustained pressure. Mr Wigglesworth said interest rates were already starting to rise and many companies were expecting further increases.

The CBI's cautious optimism now is based on the view that interest rates will not remain at present levels for long. Mr John Caff, the confederation's chief economist, said he saw the rise to 14 per cent on Monday as a short-term measure to restore financial confidence. The CBI believed a rise was necessary to stabilise the markets.

On the basis of its survey, the CBI is forecasting that manufacturing output will have risen by 3½ per cent in the year to April, with investment in the first three months of the year up by 10 per cent compared with the same period in 1984.

Inflationary pressures are expected to remain moderate during the next four months, although manufacturers' selling prices may rise at a somewhat faster rate.

The survey showed, however, that increased efficiency rather than expanded capacity continues to be the most important motive for industrial investment.

Consequently, the number of people employed by manufacturing industry is expected to fall by 0.55 per cent, which is equivalent to about 30,000 jobs in the six months to April this year.

The survey showed that business confidence was improving again after declines in the previous two quarterly surveys. The survey said this suggested that confidence was stabilising, although Mr Wigglesworth conceded that the rise in interest rates might have changed this picture.

He believed, however, that investment plans would not be altered, in the short-term at least, because companies were used to looking five or even 10 years ahead when taking investment decisions.

## Downturn at Chevron and Texaco

By William Hall in New York

TEXACO and Chevron, the U.S. oil groups which together spent more than \$200m last year acquiring Getty Oil and Gulf, yesterday reported lower 1984 profits, despite having the benefit of their acquisitions for most of the year.

Texaco, which warned in November that it was taking a \$765m writedown in its fourth quarter, reported a 75 per cent drop in its full-year net income to \$306m, or \$1.03 per share.

Chevron, which paid \$13.2bn for Gulf last June, announced a 4 per cent drop in its net income to \$1.5bn or \$4.48.

Mr George Keller, Chevron's chairman, said that Gulf contributed \$40m to Chevron's earnings during the seven months it was part of the enlarged group. Texaco estimated that its earnings fell by only 13 per cent to \$1.1bn if the fourth-quarter writedown is excluded.

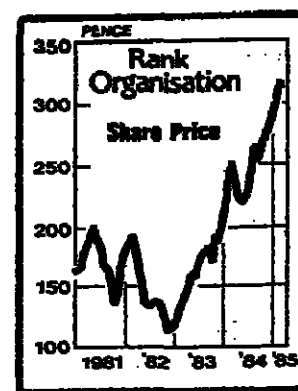
Mr John McKinley, Texaco's chairman, says that "although worldwide petroleum demand strengthened somewhat during 1984, the benefit from this increased demand was offset in the market by the continued surplus of crude oil and petroleum products."

Mr Keller blamed Chevron's lower earnings on "weakness in refined product prices and depressed downstream margins through most of the year."

He noted that, except for a brief period, petrol prices in the U.S. remained depressed for much of the year.

## THE LEX COLUMN

# Bridging the great divide



The UK Government's White Paper on investor protection is a carefully framed and realistic document which makes greater concessions to the principle of statutory regulation than even Professor Jim Gower had dared to suggest a year ago. It is a measure of how far City of London thinking has travelled in that time that a document which would once have been seen as plain heresy was yesterday greeted with polite, if not enthusiastic, applause all round.

From the City's point of view, of course, it could have been a lot worse. Self-regulation lives on, albeit shackled by a statutory framework, while no one could quibble with the Government's emphasis on efficiency, flexibility and competitiveness - not publicly at least. Yet the paper also proposes several radical changes in the way the City governs its affairs. It rightly questions the solidity of Chinese Walls and lays down a fairly stringent set of rules to prevent abuses by authorised investment businesses. It insists on a high level of disclosure and recommends civil and criminal sanctions tough enough to deter all but the most determined villains.

The paper's main weakness is its refusal to discard the idea of twin regulatory boards. The Government will probably opt for a single authority in the end, but it is not helpful to leave the matter unresolved during the period of staff recruitment. The document is also rather vague on the matter of packaged investments and what constitutes a "professional investor." Many an established amateur may find himself in the players' pavilion before long.

But there are plenty of compensations. The rule of the Bank of England has sensibly been confined to head-hunting, and the overall system of checks and balances has been cleverly constructed. Offering the Takeover Panel the option of statutory backing is no bad thing, while a few anomalies in the Companies Act are to be rectified.

For the structure to succeed, it clearly needs to be properly financed and, most important, led decisively. Confidence in the authority of the new board(s) will be crucial.

## Markets

Whatever optimism the equity market felt on Friday evaporated over the weekend and quietly resurfaced in the gilt market yesterday. And well it might - equities had

seemed oblivious to the possibility of another rise in base rates, while gilts had been sickly well in advance. Now gilt investors have at least two reasons for cheer. The Government has shown it is still serious about inflation; and with any luck, the higher rates will have enough impact on bank lending to reduce the need for overfunding.

Gilts are starting to attract foreign buying interest, and the downward slope of the yield curve reflects an expectation that Monday's rise in base rates will be reversed within the next few months.

In the market's eyes, Mr Lawson may have drawn two morals from the base rate moves of the past year, each of which should in theory keep prices stable. The first is that sharp and sudden increases neither win friends nor help sterling; the second is that equally sudden falls renew doubts about the Government's commitment to its currency.

In relation to the yield on equities, gilts now look distinctly cheap and have displayed nothing like the nervousness which has characterised equity trading over the past week. But many a fund manager, who has switched from equities to gilts on yield gap arguments over the past year, has lived to regret it.

## Rank

It would take a meaty-mouthed critic to complain about Rank's £105m profit for the year to October, or indeed cavil at the way it was achieved. It was always obvious enough that much of the improvement would come from the cutting-out of loss-makers (£28m here, from a fall in the interest charge (worth nearly £28m) and

from disposals of disused cinemas (taken above the line £7m against £1.5m). A substantial upturn at Rank Xerox - for the first time in five years - was also pretty well discounted. The measure of Rank's achievement is that trading profits in the businesses it actually manages were also over 25 per cent higher, at almost £40m.

Rank's management is thus in a position to claim that its efforts have gone beyond mere book-keeping. If its travel business had not caught a cold, the results might well have been something to crow about. Unlikely as it may seem, Rank has even been able to find growth in the bingo clubs, selling more food and adding game machines. Inventive though Rank may prove at this sort of in-filling, it will not fully employ the group's cash. Nor can it provide the strategic clues that the City will probably demand before pushing the shares well beyond their current 318p - which at last restores Rank to the dignity of an average market rating.

## Guinness Peat

Since the acquisition and liquidation of Moore Trust at the end of 1983, Mr Alistair Morton has shown himself deft at enlarging the capital base of Guinness Peat without recourse to shareholders. This is, incidentally, convenient since the largest of these is Lord Kinnaird, who was no great friend of Guinness Peat's new management; yesterday's issue of shares to UKPI in return for its holding in Britannia Arrow will reduce the Kinnaird position from 22 per cent of the equity to less than 8 per cent. In return, Guinness Peat has gained a large and apparently sympathetic shareholder in the form of UKPI which would make the group less vulnerable to takeover.

The advantage to UKPI of switching horses at this stage may be as much a reduction in its exposure to Britannia Arrow's new acquisition as what Guinness Peat has to offer in management on the energy and property side. Guinness Peat itself must know Britannia Arrow pretty well, having considered selling its merchant bank in 1982. Yesterday's deal looks neither very risky nor expensive and does give Guinness Peat an opening to retail financial services and fund management, but is unlikely to provide much co-operative benefit.

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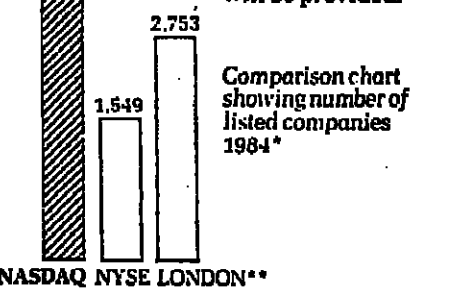
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## World Weather

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# SECTION II - INTERNATIONAL COMPANIES FINANCIAL TIMES

Wednesday January 30 1985



PRICE CUTS EXPECTED IN WAKE OF CHRISTMAS SLUMP

## Commodore profits plunge 94%

BY LOUISE KEHOE IN SAN FRANCISCO

EARNINGS of Commodore International, the largest U.S. home computer maker, plummeted by 94 per cent in the second quarter to just \$3.2m from \$50.1m in the same period a year ago. Sales dropped 21 per cent to \$338.7m from \$431.4m.

The result reflects the impact of the slowdown in U.S. home computer sales, and in anticipation,

the company built up its inventory by 10 per cent.

U.S. consumers, however, proved disenchanted with home computers, and retail chains throughout the country reported lower sales than expected. To reduce stocks, Commodore has laid off about 540 workers.

Commodore is expected to reduce its prices sharply. Earnings for the second quarter were significantly reduced by a pre-tax charge of \$30m related to certain product pricing

action to be taken by Commodore.

Industry analysts expect Commodore to slash the U.S. price of its Commodore 64 home computer to compete with a new machine promised by Atari, now owned by Mr Jack Tramiel, former Commodore president.

Commodore may also reduce its European prices, which have been inflated by the dollar's strength.

Analysts doubt, however, that such moves will generate significant sales volume. They believe

that U.S. consumers have turned away from cheap home computers towards higher-priced and higher-performance machines, such as the IBM PC Jr and the Apple II.

Apple Computer has also reported excess stocks this month. The company has made few shipments of Apple II computers since Christmas, Mr John Sculley, Apple president, said last week.

U.S. computer dealers are holding considerable stocks from last year, he explained.

## U.S. Steel back in black at year-end

By Our New York Staff

U.S. Steel, the country's largest steel producer, staged a recovery in 1984, despite a sharp fall in profits in the fourth quarter.

The group ended last year with net profits of \$493m or \$3.52 a share, against a \$1.1bn or \$12.07 a share loss in 1983.

Mr David Roderick, chairman, said the results indicated the success of actions over the past three years to diversify, restructure and streamline operations. The results were especially satisfying in the light of the soft market for steel and lower oil prices.

He added that another profitable year was expected in 1985, with continued emphasis on debt reduction and operating efficiency.

U.S. steel's shares, however, were down 5% at \$27 1/2 in early trading yesterday, reflecting the fourth-quarter profits decline.

Net profits in the final three months were \$22m, equivalent to a loss after preferred dividends of 1 cent a share.

This compares with a loss of \$883m or \$7.17 in the 1983 period which includes a \$1.15bn charge for shutdowns.

Fourth-quarter sales were unchanged at \$4.7bn, but rose for the year from \$17.5bn to \$19.1bn.

The latest final-quarter profits compare with the \$153m or \$1.15 a share of the third quarter, when profits were bolstered by asset sales and pension cost reductions.

At the nine-month stage gains on assets sales were estimated at \$234m before tax, which, with the pension cost reductions, helped the company post a \$493m profit for the year.

## Time income jumps 51% in full year

By William Hall in New York

THE U.S. presidential elections and the 1984 Olympics led to substantially higher magazine circulation and advertising revenues for Time, the publishing and entertainment group, and underpinned a 51 per cent increase in 1984 income from continuing operations to \$218.4m.

Its fourth-quarter income from continuing operations rose by 30 per cent to \$66.7m. Earnings per share for the full year totalled \$3.37, compared with \$2.59 in 1983.

Mr J. Richard Munro, Time's chief executive, says the company's strong performance is due primarily to record revenues and profits for magazines. Revenues rose 17 per cent and operating profits reached record levels.

## Growth slows at Perstorp

By David Brown in Stockholm

PERSTORP, the Swedish special chemicals company, reports its rate of earnings increase slowed during the first four months of its 1984-85 business year to 10 per cent.

Shareholders have authorised an issue of up to 2.5m unrestricted shares worth about SKr 250m (\$27m) to finance an acquisition, probably in the biotechnology or analytical instruments field, in the UK or North America.

Earnings before extraordinary items and taxes but after financial costs rose to SKr 110m and sales climbed 13 per cent to SKr 1.1bn. Operating costs and depreciation allowances rose at a slightly higher rate and the operating result was ahead by only 5 per cent to SKr 113m.

Net financial costs more than halved to SKr 3m, however.

Perstorp said sales in its component division declined in weak market and following postponement of large orders from Iran.

## Deutsche BP to close two loss-making plants

BY RUPERT CORNWELL IN BONN

DEUTSCHE BP, the German subsidiary of the British oil group, is closing two loss-making refineries in north Germany. The move, announced yesterday by Deutsche BP's chief executive Herr Hellmuth Buddenberg, means that 1,000 of the company's workforce of 7,000 are likely to lose their jobs.

The two refineries, at Hünne and Hamburg, are the latest casualties of the intensifying pressures on the West German oil industry. It has been hit by overcapacity, fierce competition from imported oil products and shrinking domestic demand.

Basic refining operations stopped at both plants in 1982 and 1983.

They were then converted to handling atmospheric residues, including cracking, but even this proved uneconomic.

The closures will take place this year. The British parent is expected to put up DM 500m (\$157.7m) to help meet the social costs of the shutdowns and launch new investments.

Yesterday's decisions will remove about 4m tonnes of refining capacity from the West German market. Deutsche BP's effective remaining capacity in West Germany will be 2.5m tonnes equivalent, represented by its 50 per cent stake in a refinery at Ingolstadt in Bavaria.

Herr Buddenberg said that BP

last year lost about DM 170m on its West German refineries. Its German subsidiary broke even overall because of profits in other areas, such as petrochemicals and plastics.

Deutsche BP, however, is not alone with its problems. Oil companies lost DM 15.4bn on refining and distribution in West Germany between 1980 and 1983, while refining capacity has been reduced from 180m tonnes a year in 1979 to around 100m tonnes, and it could drop to barely 90m tonnes by the end of 1985. Shell, Esso and Mobil have also either announced or considered similar cutbacks in recent months.

## Akzo lifts dividend 50% as profits soar

BY LAURA RAUN IN AMSTERDAM

AKZO, the Dutch chemicals and fibres group, raised its 1984 final dividend by 50 per cent to F 4.50 and confirmed its prediction of a record F 1750m (\$208.3m) profit for 1984.

Earnings per share jumped 47 per cent to F 19.82 last year after a 19 per cent increase in shares outstanding. Profits rose 75 per cent from F 428m in 1983 while sales expanded 10 per cent to F 16.54bn from F 15.09bn.

The economic recovery in Europe and North America, aided by the strong dollar, enabled the Arnhem-based company to reap the benefits of intensive cost-cutting and product realignment.

Interest payments fell 18 per cent and Akzo's cash and short-term investments stood at F 1.1bn at the end of 1984, compared with F 1.2bn a year earlier.

A. L. Jansen, chairman, said recently that the synthetic fibres divisions, which had suffered heavy losses in the past, would help boost

net income to its highest level in Akzo's 15-year history.

The company said yesterday that Enka, its main subsidiary in the synthetic fibres division, posted "gratifying gains" in sales and operating income for industrial as well as textile and carpet fibres.

Enka, which has sharply reduced its capacity in recent years, has sought to move away from clothing and carpet applications and toward industrial fibres.

Akzo did not comment on the prospects for this year, but analysts believe earnings may stabilise because most of the restructuring benefits have already been felt.

The chemical products division, which includes Akzo Salt, should profit from the cold weather throughout Europe and the U.S. Last year chemical products reported a "substantial increase" in sales and income from salt, as well as commodity and special chemicals.

## Cost-cutting lifts UAL to \$282m

By Our New York Staff

UAL, parent of United Airlines, the largest U.S. carrier, has reported its highest annual profit since 1978, helped by continuing efforts to cut operating and pension costs.

Net profit for 1984 was \$282.4m, or \$7.46 a share, including a \$21.5m extraordinary gain. This compares with \$142m, or \$3.88 a share, in 1983, when a significant portion of earnings came from the sale of tax benefits.

In the fourth quarter, net earnings were \$87m, or \$1.78 a share, against \$56.1m, or \$1.54, in the 1983 period. Revenues rose marginally from \$1.66bn to \$1.67bn, taking 1984 revenues to \$6.97bn against \$6.02bn.

UAL said reductions in pension and employee costs cut consolidated and airline operating expenses by more than \$60m net.

Pre-tax operating profits rose from \$218.5m in 1983 to a record \$244m in 1984, as passenger traffic improved by 7 per cent, and there was an 8.3 per cent rise in average revenue per passenger mile to 11.57 cents.

UAL's hotel operations suffered a slight fall in 1984 net earnings from \$15.8m to \$18.4m.

## Moët Hennessy sales advance

By Our Financial Staff

MOËT HENNESSY increased its turnover by 28.2 per cent in 1984 to FFr 6.84bn (\$706.6m), and profits were "very substantially," M. Alain Chevalier, the chairman, said yesterday.

He gave no provisional figure for 1984 profits, but said sales of wine and champagne rose by 21.5 per cent and of cognac by 48.6 per cent compared with 1983 on a consolidated basis.

Sales of the U.S. subsidiary, Armstrong Nurseries, were about the same as in 1983. Moët expects to report a 1984 loss at Armstrong of between \$5m and \$6m.

Group profits in 1983 totalled FFr 402m.

## Vizcaya gains despite high risk provision

By David White in Madrid

BANCO DE VIZCAYA, which ranks number five among Spain's commercial banks, increased its net profit last year by 18 per cent to Pta 9.03bn (\$61m), compared with Pta 9.03bn in 1983.

The result came after the setting aside of a hefty Pta 23.07bn for bad debt risks. This accounted for more than two thirds of the bank's gross earnings figure of Pta 36.11bn.

Customers' deposits rose to Pta 1,320bn from Pta 933bn, an increase of 14 per cent. The bank is lifting its dividend from Pta 168 to Pta 212 per share.

Former minority shareholders of Banco Atlantico, the principal bank of the Rumasa group, which the Spanish government expropriated in 1983, have finally reached a settlement with the authorities on the level of indemnities to be paid.

A shareholders' association approved the latest government offer of Pta 1,738 (\$9.93) per share, including accumulated annual interest of Pta 8 per cent since expropriation. The Government initially offered to compensate minority holders of the bank's nominal Pta 1,000 shares at par, against more than double sought by shareholders' representatives.

Early last year the bank was sold to a consortium led by Arab Banking Corporation in conjunction with the Spanish, state-controlled Banco Exterior, for Pta 5.1bn, on 75 per cent of the total nominal value of the stock.

## Herrhausen succeeds Guth at Deutsche

By John Davies in Frankfurt

DEUTSCHE BANK, West Germany's largest bank, yesterday named Dr Alfred Herrhausen to succeed Dr Wilfried Guth as joint spokesman alongside Dr Wilhelm Christens.

Dr Guth, 65, is expected to move to Deutsche's supervisory board after the shareholders' meeting in May. He and Dr Christens have been joint spokesmen - in effect, joint chief executives - since 1976.

The decision elevates Dr Herrhausen to one of the most powerful positions in the West German business world. His election by fellow members of the bank's management board ends long speculation about his possible top managerial moves arising from Dr Guth's retirement.

Dr Herrhausen, 55, has held senior positions at Deutsche Bank for more than 15 years, after moving from the board of an electricity supply concern.

He is responsible for the bank's economic department and for North American activities. He is also on the supervisory board of several leading West German companies, including Daimler-Benz, the motor-vehicle concern, Kfz-Gesellschaft, the steel group, and Continental Gummi-Werke, the tyre company.

A man with commanding stature, he has considerable influence not only in business but also in political circles.

## Dassault aims to sell 30 Falcons a year

By David Marsh in Paris

DASSAULT-BREGUET, the French state-controlled aircraft maker, which has just formally unveiled its Falcon 900 business jet, is aiming to sell about 30 of the aircraft a year over the next decade and to break even on the project in about eight years.

M. Bruno Vallieres, the group's chairman, said 38 aircraft had already been sold, and the company planned to produce an average of 3.5 a month in coming years.

Dassault-Breguet, in which the French Government has a 48 per cent stake, is best known as the maker of Mirage fighters.

The Falcon 900, however, carries its hopes of continuing expansion on the market for high-performance business jets.

The basic cost of the new jet is \$13.5m at 1983 prices. More than half the clients are expected to come from the U.S., and the rest from companies, government organisations and wealthy individuals in Europe, the Middle East, South-East Asia and Africa.

M. Vallieres rejected American claims that Dassault was gaining an unfair advantage over U.S. competitors because it had received government aid in developing the Falcon. About 35 per cent of the aircraft's cost, including the engines, represents materials bought in the U.S.

## Swiss watch group set to break even

By John Wicks in Zurich

ASUAG-SIHH, Switzerland's leading watch-making group, expects to break even in 1984.

In 1983, the group made an operating loss of SwFr 87m (\$32.7m). The board attributes the improvement to the initial success of a restructuring programme, a stronger economy and a favourable exchange rate.

The company says it has agreed to a sale of shares to the Zurich consultant Nicolas G. Hayek and a group of Swiss industrialists, granting them an option over two years to buy up to 51 per cent of the company's shares.

As a first step, a 7 per cent stake will be sold to Mr Hayek and the industrialist Dr Stephan Schmidheiny.

## Restructuring costs leave GTE final-quarter earnings lower

BY ANDREW BAXTER IN NEW YORK

GTE, owner of the largest non-Bell telephone system in the U.S., yesterday reported a 10 per cent fall in fourth-quarter net profit following a \$55m after-tax charge for restructuring certain operations, primarily in Latin America.

The charge, which had been expected, left net earnings at \$243m or \$1.15 a share, compared with \$268m or \$1.39 in the 1983 period. However, the 1983 figures take in a \$20m credit, and stripping out both special factors would produce a 9 per cent rise in income in the latest quarter, broadly in line with the recent trend.

For the year, GTE's net earnings

rose 18 per cent to a record \$1.1bn or \$5.55 a share against \$950m or \$5. Again, however, special factors have distorted the figures and part of the rise reflects accounting changes. Excluding this and the fourth-quarter factors, consolidated earnings per share from continuing operations were 7 per cent higher than in 1983.

Mr Theodore Brophy, chairman and chief executive, said the continued strong performance of telephone operations in 1984 and the sharp improvement in the electrical products group was partially offset by disappointing results in communications products and the Sprint

long-distance communications service. Telephone operating income rose 14 per cent to \$2.6bn, while revenue was up 8 per cent to \$8.1bn. The improved results mainly reflect cost reductions and productivity improvements.

Communications services, which include Sprint, Telemet, packet switching services and satellite operations, suffered a fall in operating income from \$82m to \$57m, while revenue more than doubled to \$1.2bn, reflecting acquisitions. The profits fall reflects the impact in the second half of 1984 of a 70 per cent rise in charges to Sprint

## Pacific Telesis plans debt issue

BY PAUL TAYLOR IN NEW YORK

PACIFIC Telesis, the western U.S. Bell telephone regional holding company, yesterday reported fourth-quarter net earnings of \$201m or \$2.01 a share on revenues of \$2bn and full-year net earnings of \$828.5m or \$8.46 a share on revenues of \$7.62bn.

The company also became the latest of the regional Bell holding companies - having out of the Bell system break-up at the start of last year - to announce a refinancing involving the proposed issue of \$400m in new debt by its Pacific Bell unit.

Mr Donald Guinn, chairman and chief executive, commenting on the earnings, said, "I believe we have

answered all those questions raised in the months before divestiture about Pacific's financial and technological capabilities to compete outside the Bell umbrella."

Mr Guinn added that stringent cost controls and aggressive marketing, coupled with the California Public Utilities Commission decision to approve \$550m in new rates last year, helped boost 1984 earnings.

the proposed financing package unveiled yesterday was approved by the board of Pacific Bell last week. Mr John Hulise, vice-chairman and chief financial officer, not-

ed the plan "will increase the financial flexibility of both Pacific Telesis and our largest subsidiary, Pacific Bell, as well as better position us to respond to volatile capital market conditions in managing our liabilities."

Mr Hulise said that, subject to state regulatory authority approval, Pacific Bell intends to issue its securities within the next few months with maturities up to 40 years.

"We will be watching the domestic and international capital markets for windows of opportunity in order to obtain the most attractive rates," he said.

## Record year at Warner-Lambert

BY OUR NEW YORK STAFF

WARNER-LAMBERT, the New Jersey-based drugs group, yesterday reported record earnings for 1984 despite a slowdown in profits growth in the fourth quarter, caused partly by the strength of the dollar.

Full-year earnings rose 12 per cent from \$200m or \$2.51 a share to \$224m or \$2.81. The rise accords with company forecasts and follows similar advances by other drugs groups.

In the fourth quarter, net profits rose 7 per cent from \$48.5m or 61 cents to \$51.2m or 65 cents. That compares with a 13 per cent year-

on-year rise in the third quarter, when the company began to benefit from changes in tax laws.

Sales in the quarter edged up from \$786m to \$793.5m, and rose 2 per cent in the year to \$3.17bn.

Mr Joseph Williams, president and chief executive officer, attributed the income growth for the quarter and full year to higher U.S. sales, improved gross profit margins and the lower effective tax rate.

In common with other drugs groups, Warner-Lambert has been affected by the strength of the dollar, and Mr Williams said that

tended to mask good unit growth in international markets. Excluding the effects of currency adjustments, fourth-quarter earnings rose 18 per cent from \$48m to \$54m.

Prescription and over-the-counter pharmaceuticals registered the strongest sales gains in 1984, with ethical drugs sales up 9 per cent in the U.S.

Sales of health-technology products declined slightly, while profit margins came under increasing pressure. The continued weakness in this market reflects cost-cutting measures by the U.S. Government and other agencies.

## Final-quarter upturn for Merrill

BY ANDREW BAXTER IN NEW YORK

MERRILL LYNCH, the world's largest securities broker, reported sharply lower net earnings for 1984, despite improved profits in the final quarter.

Merrill recorded net earnings from operations of \$29.6m or 31 cents a share in the fourth quarter, up from \$18.4m or 21 cents in the 1983 period, when non-recurring charges related to the collapse of Baldwin-United, the financial services company, produced a final net loss of \$42.1m or 47 cents.

The latest quarter's results are better than the \$35m earned from operations in the third quarter, and illustrate the company's continuing

recovery from the ravages of the second quarter, when the depressed trading on Wall Street resulted in a \$33m loss.

For the year, Merrill made net profits of \$95.3m or \$1.03, against \$330.2m or \$2.26 in 1983. The latest year includes a \$46m net gain from the sale of the company's Manhattan headquarters, while the previous year's profits include \$53m in net charges and reserves because of Baldwin-United.

Final quarter revenues rose from \$1.4bn to \$1.6bn, taking revenues for the year to \$6bn (\$5.7bn). Fourth-quarter revenues were up

in most categories, compared with those in the 1983 period, except for a small fall in insurance revenues and a 9 per cent decline in commissions.

For the year reduced stock market activity and lower average share prices contributed to a 20 per cent fall in commission revenues to \$1.2bn. Principal transactions revenues fell 17 per cent to \$561m and investment banking revenues fell 22 per cent to \$582m.

In contrast previous revenues rose 18 per cent to \$482m, while insurance revenues surged 47 per cent to \$171m.

## Bank of America sets up technology group

BY OUR NEW YORK STAFF

BANK of America, the second biggest bank in the U.S., plans to spend \$50n over the next five years "retooling" its systems in a bid to become the "most technologically proficient financial institution" in the world.

The bank has set up a group called BankAmerica Systems Engineering (Base) to co-ordinate its approach to managing technology as a strategic competitive force.

The bank says its commitment of resources to Base, which will employ 5,000 staff worldwide, is one of the biggest changes in the way it does business since it introduced

the industry's first electronic book-keeping system in 1958. The bank stressed that the reorganisation was far more than just a reshuffling of the organisational boxes and reflected a "fundamental shift" in the way it approached its business and managed technology.

Although the bank plans to spend an average \$1bn a year on automating its delivery system, it was not clear whether this would involve an increase in current capital spending. Bank officials said they hoped that by using their resources more efficiently and reducing overlapping systems developments, it

would be possible to complete the five-year project without a substantial increase in current spending.

The new unit will be headed by an executive vice-president, Mr Max Hopper, aged 50, who will report directly to Bank of America's chief executive, Mr Sam Armacost. Mr Hopper joined the bank just over two years ago from American Airlines, where he is credited with having revolutionised the reservation system through computer technology.

Base will consolidate the bank's various technological systems at

home and abroad and will ultimately be used to provide extensive computerised access to financial services and information for the bank's customers around the world.

The bank said that over the next four years it expected its volume of business, as measured by "trips" or millions of instructions per second, to increase by 150 per cent.

"Technology is a primary strategic resource," said Mr Hopper. "We're making official the inextricable link between the business of banking and the business of technology."

## General Mills plans divestment programme

BY OUR NEW YORK STAFF

GENERAL MILLS, the Minneapolis-based diversified consumer products group, has put its toy and fashion businesses up for sale as part of a major move to concentrate on consumer foods and restaurants, which have traditionally provided the highest returns and long-term growth.

The company said yesterday that its board had authorised management to explore the possible sale of the toy and fashion businesses and had hired Dillon, Read, the New York investment bank, to review formal offers for the divisions in "a relatively short period of time."

General Mills entered the toy and fashion business via acquisitions in the 1960s. In its last financial year

its toy business had operating profits of \$72m on sales of \$785m, and its fashion business had profits of \$48.5m on sales of \$587m.

General Mills has five major operating divisions: the two which are being put up for sale account for a quarter of group profits and sales and close to a third of its \$2.58bn of assets.

The company plans to invest more than \$1.5bn in new fixed assets over the next five years.

Toys and fashion account for a relatively small proportion of corporate new investment yet are requiring a substantial amount of management time, so the company is considering divestment of these businesses.



U.S. \$20,000,000

**IBJ**The Industrial Bank of Japan, Limited  
LondonFloating Rate London-Dollar Negotiable  
Certificates of Deposit due 30th July, 1986

In accordance with the provisions of the Certificates, notice is hereby given that for the six month Interest Period from 30th January, 1985 to 30th July, 1985 the Certificates will carry an Interest Rate of 8 1/8% per annum. The relevant Interest Payment Date will be 30th July, 1985.

Credit Suisse First Boston Limited  
Agent Bank

## INTERNATIONAL COMPANIES and FINANCE

## N. AMERICAN QUARTERLY RESULTS

AMERICAN ELECTRIC POWER		Six months		1984		1983	
Revenue	1,226m	1,190m	627.5m	751.3m	31.3m	38.9m	1.73
Net profit	122.5m	122.5m	31.3m	38.9m	0.90	1.13	
Net per share	0.85	0.85					
Fourth quarter		1984		1983		1982	
Revenue	323.3m	298.3m	78.3m	75.3m	31.3m	38.9m	1.73
Net profit	32.3m	32.3m	8.3m	8.3m	0.90	1.13	
Net per share	1.23	1.23					
Year		1984		1983		1982	
Revenue	4,950m	4,370m	1,226m	1,190m	627.5m	751.3m	1.73
Net profit	495m	437m	122.5m	122.5m	31.3m	38.9m	1.73
Net per share	2.85	2.44	0.85	0.85	0.90	1.13	

## BRITISH COLUMBIA TELEPHONE

Revenue 1984 1983

Fourth quarter 1984 1983

Revenue 1984 1983

Fourth quarter 1984 1983

Revenue 1984 1983

Fourth quarter 1984 1983

Revenue 1984 1983

Fourth quarter 1984 1983

Revenue 1984 1983

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French cement group  
seeks growth  
in biotechnology

BY DAVID MARSH IN PARIS

LAFARGE COPPEE, the French-based international cement group, is picking up momentum in its drive to diversify into food and agricultural-linked biotechnology activities.

Following a series of acquisitions and expansion moves in France and the U.S. over the last few months, biotechnology business, based on food products and seeds, is expected this year to make up around 10 per cent of the group's \$2bn turnover.

M Olivier Lecerc, the Lafarge chairman, decided several years ago that the company needed to diversify to counter any effects of limited expansion or stagnation on its traditional construction-linked markets over the next decade.

The ideas have been put into effect, without great spectacle but with Lafarge's customary deliberation followed by rapid action. In the world-wide biotechnology market, says M Patrice Le Hodey, head of the group's bio-activities, "We have the luck to be small. This makes us prudent. We are not in all the amino acids—but we're in the big ones. Our efforts are highly targeted."

Lafarge is clearly thinking big. Its long term planning is based on putting biotechnology activities on an equal footing with the group's cement business in about 15 years' time.

Lafarge's bio-activities are centred on Orsan, a concern with its roots in the sugar business going back to the beginning of the century. Orsan, which came under Lafarge's control in its 1980 line-up with the Belgian group Copax, got out of sugar and invested in the fermentation business—before "biotechnology" was a fashionable corporate word—during the 1960s.

Orsan, quoted on the Paris bourse, is now owned 70 per cent by a holding company, the shareholders in which are split between Lafarge with 66 per cent and the farmers' co-operative bank, Credit Agricole, with 34 per cent. The remaining 30 per cent is held by outside investors, including small shareholders and some large French and foreign institutions.

Orsan provided Lafarge with the biotechnology entrée it had



M Olivier Lecerc, chairman of Lafarge Coppee: Decided several years ago on the need to diversify.

been seeking. As a technological follow-up from its activities in sugar refining, Orsan is now one of the world's leading producers of monosodium glutamate (used as a food additive and in pharmaceuticals), with about 10 per cent of the international market.

Orsan's plant at Neales in North East France, a converted 19th century distillery, also produces another amino acid, aspartic acid, used as an artificial sweetener for drinks.

Additionally, under a collaboration deal with Ajinomoto of Japan signed in 1974, Orsan — through a 50-50 subsidiary with the Japanese group, Eurolysine — controls about one-third of the world market for a third amino acid, lysine.

This is added to animal feed to improve nutrition and lower costs by allowing replacement of soya by other cereals.

The Eurolysine plant at Amiens, north of Paris, is being expanded under a three-year investment programme of FF150m. Orsan is also building with its Japanese partner a \$40m lysine plant in the U.S., run by a new Iowa-based jointly held subsidiary, Hearthland Lysine.

Lafarge was, however, determined that its biotechnology efforts should not stop at amino acids. "We wanted to gain a foothold in an area where biotechnology was making an impact," says M Le Hodey. "We decided it should be seeds where genetic engineering is the principal factor in its development."

Following months of prospecting, Lafarge through its Orsan unit took the plunge in May last year by buying the Illinois based maize seed company, Wilson Hybrids, one of some 200 smaller U.S. groups in the seed field behind the leader, Pioneer.

It followed this up just before Christmas with the purchase of the seed production business of the U.S. chemicals group, Celanese.

Earlier this month, Orsan added to its strength in grains by building up to 39 per cent of its stake in one of France's biggest seed companies, Clays-Luck, which specialises in wheat.

Clays-Luck, in which Orsan already held 10 per cent, has a turnover of about FF1.3bn, a

turnover of about FF1.3bn, a

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## Condensed Statement of Condition

Dollars in millions

Assets	At December 31	
	1984	1983
Cash and due from banks	\$ 4 961	\$ 4 649
Interest-bearing deposits with banks	6 644	7 659
Investment securities (market value: \$7 350 in 1984 and \$6 070 in 1983)	7 372	6 161
Net loans and lease financing	33 356	31 529
Customers' acceptance liability	2 811	1 837
Other assets	6 080	3 848
Total assets	61 224	55 683
Liabilities	At December 31	
	1984	1983
Total deposits	39 997	39 473
Federal funds purchased and securities sold under agreements to repurchase	8 903	5 822
Other liabilities for borrowed money	4 094	3 544
Liability on acceptances	2 813	1 837
Long-term debt	425	401
Other liabilities	1 872	1 700

Stockholder's equity	Twelve months ended	
	December 31	1983
Total stockholder's equity	3 120	2 906
Total liabilities and stockholder's equity	61 224	55 683

## Selected Income Data

Dollars in millions

	Twelve months ended	
	December 31	1983
Net interest income	\$ 968	\$ 1 056
Net income	491	420

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Kay Capital N.V.

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Kay Corporation

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the three month period (90 days) from 30th January to 30th April, 1985 has been fixed at 9 1/8% per annum.

On 30th April, 1985, interest of U.S.\$232.81 per  
Note will be due against coupon No.23.J. Henry Schroder Wagg & Co. Limited  
Reference Agent

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US\$100,000,000

Secured Floating Rate Notes Due 1992  
Initial Tranche of US\$50,000,000

Notice is hereby given that the initial Rate of Interest has been fixed at 9 1/8% and that the interest payable on the relevant Interest Payment Date, July 29, 1985 against Coupon No. 1 in respect of US\$10,000 nominal of the Notes will be US\$496.49.

January 30, 1985, London  
By: Citibank, N.A. (CSSI Dept.), Agent Bank

CITIBANK

SNCF

U.S. \$150,000,000

Société Nationale des Chemins de Fer Français

Floating Rate Notes due 1988  
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U.S. \$150,000,000  
14 1/4% Bonds due April 28, 1990For the three months  
30 January 1985 to 30 April 1985In accordance with the provisions of the Notes,  
notice is hereby given that the rate of interest  
has been fixed at 8 1/8% per cent and that the interest  
payable on the relevant interest payment date,  
30 April 1985 against Coupon No 12 will be  
U.S. \$21.09 per U.S. \$1,000 Note and U.S. \$210.94  
per U.S. \$10,000 Note

Agent Bank

Morgan Guaranty Trust Company of New York, London

US\$400,000,000 GUARANTEED FLOATING RATE SUBORDINATED CAPITAL  
NOTES DUE OCTOBER 1996CITICORP PERSON TO PERSON,  
INC.

(Incorporated in the State of Delaware)

Unconditionally guaranteed on a subordinated basis by

CITICORP

Notice is hereby given that the rate of interest has been fixed at 8 1/8%  
and that the interest payable on the relevant Interest Payment Date  
April 30, 1985 against Coupon No. 2 in respect of US\$10,000 nominal  
of the Notes will be US\$214.06.January 30, 1985, London  
By: Citibank, N.A. (CSSI Dept.), Agent Bank

CITIBANK

IN RE-APPLICATIONS BY  
THE COCA-COLA COMPANYCourt of Appeal (Lord Justice  
Lawton, Lord Justice Browne-  
Wilkinson and Sir Denys  
Buckley): January 23, 1985

A LINE drawing of a bottle may be registrable as the trade mark of a beverage if the bottle depicted is unusual and distinctive; but the bottle itself or its shape are not registrable in that they are not "marks" capable of being applied to or incorporated in the bottle.

The Court of Appeal so held when dismissing an appeal by Coca-Cola Company in respect of two applications for registration of trade marks, and allowing it in respect of one application.

On a judgment of Mr Justice Falcouner upholding the Registrar's objections to the applications.

Section 38 of the Trade Marks Act 1938 provides: "(1) In this Act, 'mark' includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral or any combination thereof. (2) References in this Act to the use of a mark shall be construed as references to the use of a printed or other visual representation of the mark."

LORD JUSTICE LAWTON said that at the beginning of the century the company started to produce and sell Coca-Cola in the U.S. It was a success and there were many imitations. In 1916, in order to stop imitations it designed a bottle of unusual shape in which to sell its beverage.

In the early 1920s the company started to sell Coca-Cola in its unusually shaped bottles in the U.K. There was ample evidence to show that the public in the U.S. and the U.K. associated the shape with Coca-Cola.

On January 9 1976 the company applied to register a trade mark consisting of "the distinctive shape and appearance of a bottle . . . as shown in the accompanying representation and specimen."

The Registrar objected to the application on the ground that the specimen was purely a container and bore no trade mark characteristic. He said: "It follows that if the actual bottle cannot be regarded as a trade mark, neither can a pictorial representation of it."

On March 13 1980 an application was made for registration of a line drawing of a Coca-Cola bottle. The only objection to that was that the mark, consist-

ing of the drawing, was "not distinctive."

A third application, also dated March 13, was made on the basis that "the mark consists of a bottle of the shape shown" in three perspective drawings.

The Registrar objected because, so he said, what was claimed to be a mark consisted "of the non-distinctive device of a bottle."

Mr Justice Falcouner upheld all the objections. The company appealed.

The main issue was whether a bottle of unusual shape could be "a mark" at all. The starting point must be the construction of the word in the Trade Marks Act 1938.

It was a word in ordinary use, not a word of art. Its construction was not limited by the words which followed it in the statutory definition. It had many meanings according to the context in which it was used.

The dictionary meaning most apt to the subject matter of the appeal was "a sign affixed or impressed for distinction" (see *Oxford English Dictionary*).

In *Smith, Kline and French* [1976] RPC 511, 534 Lord Diplock said that "... a mark" must be something that can be represented visually and may be applied to . . . or incorporated in the structure of the goods."

The relevant question was whether the bottle could be said to be "applied" to the goods, which were a non-alcoholic beverage, or "incorporated" in them. As a matter of the ordinary use of English language, the answer was "no."

In *Smith, Kline and French* the colouring giving the distinctive appearance to the goods, which were drugs in a capsule, had clearly been applied to them.

What was adjudged by the House of Lords to be the trade mark was the overall appearance of the goods, not the shape of the capsule.

The bottle did not affect the appearance of "the goods," the beverage in it.

Mr Justice Falcouner, for the company, argued that the public associated the shape of the bottle with its contents; but that did not provide a reason for departing from the meaning of the statutory language.

That opinion was fortified by the Court of Appeal decision in *Jones's Trade Mark* (1983) 39 Ch D 382. There Lord Justice Lindley said: "A mark is something distinct from the thing marked. The thing itself cannot be a mark of itself. . . . There is no monopoly in the shape."

In *Smith, Kline and French* at page 537 Lord Diplock, after referring to *Jones*, said that "the 'thing marked' in the instant case is the pharmaceutical substance in tablet form within the

## Coke bottle not registrable as trade mark

capsules and the 'mark' is the colour applied to one half of the capsule and the various colours applied to the individual pellets within the capsule." He did not disapprove of the statement that a shape as such could not be registered.

Mr Justice Falcouner was right to uphold the Registrar's refusal to register the bottle and the "shape" in the first and third applications, on the ground that they were not "marks."

He went on to adjudge that even if they had been marks they were not distinctive.



## INTERNATIONAL COMPANIES and FINANCE

## Barclays National profit down 42%

BY JIM JONES IN JOHANNESBURG

THE DETERIORATING business climate, narrower banking margins, losses on mortgage lending, and reduced hire-purchase lending margins contributed to a 42 per cent drop in operating profit in 1984 for Barclays National Bank, the 55 per cent-owned South African subsidiary of Barclays Bank of the UK.

Operating income dropped to R115.5m (\$54.4m) in 1984 from R198.3m in 1983 despite an increase of 41 per cent in total advances to R13.52bn and a rise in total assets to R19.43bn from R15.55bn.

Barclays increased its mortgage lending rate yesterday by 15 percentage points to 22.25 per cent and told mortgage holders that they would

have to increase their monthly repayments. This was an attempt to stem revenue losses on the bank's R1.2bn home loan portfolio. Barclays is the only commercial bank to have lent heavily on mortgages and yesterday's increase lifted its home loan lending rate to about 3 percentage points above building society levels.

Westbank, Barclays' hire-purchase lending arm, halved its operating income to R25m from R50.2m despite lending at record levels. The directors blame ceilings on hire purchase lending rates for the decline.

The commercial banking arm's taxed earnings dropped to R57.2m from R71.5m. Mr Chris Ball, the managing director, expects interest rates

to fall in 1985. However, while this would under normal circumstances lead to an improvement in banking margins, the directors say that conditions are too uncertain to predict the group's interest income this year. They add, "It would be unwise to forecast earnings or dividends for the bank in what is expected to be a very difficult year."

The dividend total is being maintained at 95 cents though earnings dropped to 151.6 cents a share from 236 cents.

The rationalisation of its interests led to a substantial drop in turnover for Blue Circle, the South African cement and engineering group, in the year ended November 30 1984, but also led to improvements in operating profit and earnings.

Turnover dropped by 35 per cent to R194m (\$91m) as a result of the sale of the loss-making subsidiary Hudaco and the relinquishing of loss-making earthmoving equipment franchises but there was an increase in operating profits to R33.7m from R29.8m.

Large capital spending allowances led to a reduction in the effective tax rate to 24.3 per cent from 32.7 per cent and earnings attributable to ordinary shareholders rose to R18.8m from R11.2m.

Earnings increased to 81.6 cents a share from 53.4 cents and the dividend total has been held at 38.5 cents a share. Blue Circle is 55 per cent-owned by Blue Circle Industries of the UK.

## Philadelphia and Hong Kong plan futures link

By Paul Taylor in New York

THE Hong Kong Commodity Exchange, the Philadelphia Stock Exchange, and the Philadelphia Board of Trade (PBOT) are considering the possibility of linked 24-hour trading in currency and Euro-dollar options and other financial futures.

An agreement to begin detailed discussions on possible cooperative activities was announced following a meeting in Philadelphia last week between Dr Kim Cham, chairman of the Hong Kong Commodity Exchange, Mr Nicolas Giordano, president of the Philadelphia Stock Exchange, and Mr Arnold Staloff, president of the Philadelphia Board of Trade.

Initial discussions between the Philadelphia and Hong Kong exchanges will concentrate on the technical aspects of a proposed link and on research and the study of new contracts, according to Dr Cham. He added that discussions are expected to last at least a year. Later this year the Hong Kong exchange is due to change its name to the Hong Kong Futures Exchange and launch a stock index futures contract.

The Philadelphia exchange currently trades six currency options and has seen volume grow from 192,550 contracts in 1983 to over 1.45m last year.

## Korean funds allow foreign investment

By Steven B. Butler in Seoul

THE KOREAN Government expects to authorise this year three new open-ended trust funds, each of \$30m each, that will allow foreigners to invest indirectly in Korean securities.

The issue of the new funds continues a gradual process of liberalising the market and broadening investment opportunities for foreigners. Non-resident foreigners are currently barred from directly owning Korean securities.

The first of the new funds is expected to receive final authorisation in late March. The fund will be managed locally by Citizens Investment Trust Company, Jardine Fleming Limited and Nikko Securities are expected to be the fund's lead managers.

The Ministry of Finance and the companies involved have not yet settled on the market for the new fund, although it is expected to be in Asia.

There is also disagreement over how much of the fund's assets will be invested in equities and how much in corporate bonds. The Ministry is pushing to have the fund invest between 30 and 50 per cent of its assets in corporate bonds, while the securities companies want to invest more heavily in equities.

The Ministry said the supply of bonds in the market was in excess of demand and that new investment trusts, whether sold in foreign or domestic markets, would be required to keep a larger percentage of their portfolios in bonds.

Last year a \$80m closed-end fund, Korea Fund Limited, was listed on the New York Stock Exchange.

## Investcorp assets almost trebled

BY MARY FRINGS IN BAHRAIN

ARABIAN INVESTMENT Banking Corporation (Investcorp), which last August led the leveraged buy-out of Tiffany & Co., the New York jeweller, nearly trebled its assets and achieved a substantial improvement in net earnings for 1984.

Assets jumped from US\$81.3m at the end of 1983 to \$238m, while profits of \$11.1m compare with \$10.2m in the previous 18-month financial period. The directors are recommending the distribution of a 15 per cent dividend.

Return on shareholders' equity of just over 50m improved from 20.3 per cent to 22.1 per cent, and the return on average assets was 7 per cent.

Investcorp is a publicly quoted Bahrain investment bank founded in 1982 by a nucleus of 120 Gulf-based individual and corporate investors who each put in \$1m. They had agreed on a limit per shareholder of one half per cent of the \$200m issued capital (which is still

only 25 per cent paid up) in order to ensure a broad client base.

Another 215 founders subscribed \$54m, leaving \$26m worth of shares for public flotation. Although the issue was 1,400 times oversubscribed, many small investors as well as speculators were disillusioned when share prices crashed in the aftermath of the collapse of the Kuwaiti stock market.

Among the major deals arranged by Investcorp in 1984 were:

● The \$135.5m buy-out of Tiffany & Co. by Investcorp and 23 members of Tiffany's senior management from Avon Products. The transaction was structured to utilise the company's assets as the basis for

sourcing the senior debt, subordinated debt, and an as yet unspecified amount of new equity to fund the purchase price. Investcorp is now planning the senior debt and a portion of the subordinated debt and

equity in the U.S. The rest of the subordinated debt and equity will be placed with international investors later in 1985. Investcorp will follow its usual practice of retaining a portion of the investment for its own account.

● The arrangement of the \$38m purchase of a significant interest in Whittaker Corporation's marine group. Whittaker agreed to sell its Bertram Yacht division, Trojan Yacht division, Ketchikan Marine division and Riva Yacht subsidiary to three newly formed corporations which will be jointly owned by Whittaker and Investcorp.

● The placing of the Middle East portion of a \$42m international venture capital partnership set up by Olivetti.

● A \$22.3m first mortgage on a prime Philadelphia office building where corporate tenants have already leased 22 of the 25 floors. Investcorp has been retained to advise on the building improvement and leasing programmes.

## Marginally higher results at Shiseido

TOKYO — Shiseido Company, Japan's leading manufacturer of cosmetics, lifted parent company net profits by 0.6 per cent to ¥12.41bn (\$48.8m) in the year to November. Pre-tax profits were 5.9 per cent higher at ¥30.86bn and sales rose by 1.7 per cent to ¥323.31bn.

Earnings per share eased to ¥53.18, on increased capital from ¥59.29 but the dividend total is maintained at ¥10 per share with an unchanged final payment of ¥5.

Sales of cosmetics, which account for 84 per cent of the

total, gained 1.2 per cent from a year earlier to ¥318.06bn.

The company said sales edged upward mainly due to the development of new products, to active sales of former products, and to the strengthening of its marketing organisation.

From July last year, Shiseido said, it began to place more emphasis on research and development, especially in the biotechnology field, and started to work toward improving production processes and streamlining business operations through office automation and

other means. Wang Laboratories, a major U.S. manufacturer of office computers, has launched a full-scale business operation in Japan with the opening of a showroom in central Tokyo and the announcement of a line of hardware capable of Japanese-language processing.

Wang's move to Japan is to be followed on February 4 by the Lowell, Massachusetts-based company's opening of a Hong Kong headquarters for the Asia-Pacific region. AP-DJ

## First Kentucky National Corporation

U.S. \$45,000,000

Short-Term Note Issuance Facility

managing underwriters

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First Interstate Limited

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State Bank of New South Wales

Crédit du Nord

Istituto Bancario San Paolo di Torino

Manufacturers Hanover Limited

Sumitomo Finance International

Swingline Facility

providers

Banque Paribas

First Interstate Bank of California

The Long-Term Credit Bank of Japan, Ltd.

State Bank of New South Wales

Crédit du Nord

Istituto Bancario San Paolo di Torino

Manufacturers Hanover Trust Company

The Sumitomo Bank Limited

Arranged and Co-Ordinated by  
Manufacturers Hanover Limited

January, 1985

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U.S. \$200,000,000  
First Chicago Corporation

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## Floating Rate Subordinated Capital Notes Due February 1997

The following have agreed to purchase the Notes:

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Credit Suisse First Boston Limited

S. G. Warburg &amp; Co. Ltd.

Merrill Lynch Capital Markets

First Chicago Limited

Bank of China

Banque Nationale de Paris

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Dresdner Bank Aktiengesellschaft

Fuji International Finance Limited

LTCB International Limited

Mitsui Trust Bank (Europe) S.A.

Morgan Grenfell &amp; Co. Limited

Orion Royal Bank Limited

Postipankki

Société Générale de Banque S.A.

Swiss Bank Corporation International Limited

Toyo Trust International Limited

Westpac Banking Corporation

Bank of Tokyo International Limited

Banque Paribas

Dai-ichi Kangyo International Limited

Enskilda Securities

IBJ International Limited

Mitsubishi Trust &amp; Banking Corporation (Europe) S.A.

Samuel Montagu &amp; Co. Limited

PK Christiania Bank (UK) Limited

Société Générale

Sumitomo Trust International Limited

The Taiyo Kobe Bank (Luxembourg) S.A.

Union Bank of Switzerland (Securities) Limited

Yasuda Trust Europe Limited

Application has been made to the Council of The Stock Exchange for the Notes to be admitted to the Official List. Interest on the Notes is payable quarterly in arrears, commencing 3 months after the date of issue.

Listing Particulars relating to First Chicago Corporation and the Notes are available in the External Statistical Service and copies may be obtained during usual business hours up to and including February 1, 1985 from the Company Announcements Office of The Stock Exchange and up to and including February 13, 1985 from:

Cazenove & Co.  
12, Tokenhouse Yard,  
London EC2R 7ANThe First National Bank of Chicago  
London Branch,  
First Chicago House,  
90, Long Acre,  
London WC2E 9RB

January 30, 1985

All of these securities have been sold. This announcement appears as a matter of record only.

January, 1985



centrafarm group nv

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BEAR, STEARNS &amp; CO.

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Goldman Sachs International Corp.

Morgan Grenfell &amp; Co. Limited

Morgan Guaranty Ltd

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Nomura International Limited

Société Générale de Banque S.A.

Swiss Bank Corporation International Limited

Union Bank of Switzerland (Securities) Limited

December, 1984







## UK COMPANY NEWS

## Dunlop Olympic buys stake in Chloride

By Alexander Nicoll in London and Michael Thompson-Noel in Sydney

A 14.9 per cent stake in Chloride, the British battery group, has been purchased by Dunlop Olympic, one of Australia's largest manufacturers and a competitor to Chloride in Australasia.

At market prices, the holding of ordinary and preference shares is worth \$5.5m. No price was disclosed, however, by Dunlop Olympic or the vendor, the Australian resources group CRA which is 52.9 per cent controlled by Britain's Rio Tinto-Zinc.

Dunlop Olympic, which no longer has any connection with Dunlop of the UK, becomes the largest shareholder in Chloride, which has been slowly recovering from financial troubles since 1982 and is headed by Sir Michael Edwards, also chairman of Britain's Dunlop.

Chloride, which was told of the deal at a meeting with Dunlop Olympic last week, has not greeted it with enthusiasm. A spokesman noted yesterday that the two companies were competitors, and that therefore we cannot say that we particularly welcome Dunlop Olympic's presence as a shareholder.

Chloride has not been told of the Australian group's future intentions, he said, and there had been no discussion of boardroom representation. CRA had never sought a place among Chloride's directors.

Dunlop Olympic, an expanding group with annual sales approaching A\$200 (£1.5bn), said it hoped that a link with Chloride would help the development of its Pulsar automotive battery, which it claims to be the most advanced car battery in the world.

The battery, due to go into full scale Australian production in March, is said to be up to 50 per cent smaller and lighter than the conventional auto battery, and not to need maintenance.

Chloride launched its Torque Starter battery in 1983 — also lighter than conventional batteries and said to be maintenance free. It said yesterday that it had been offered licences for the Pulsar but needed more information on it. The Pulsar is not yet proven in world markets, it said.

CRA bought its stake in 1981 for about \$9m, including take-up of a rights issue, as an investment in a major user of lead to help it keep abreast of new technology in lead acid batteries.

Chloride ordinary shares showed little reaction to yesterday's news, falling 1p to 30p.

## Guinness Peat to acquire 25% of Britannia Arrow

BY DAVID LASCELLES, BANKING CORRESPONDENT

Guinness Peat (GP) gave another sign of its mounting self-confidence yesterday when it announced that it had acquired a 25 per cent stake in Britannia Arrow, the investment and banking group.

The deal will link two companies with wide interests in financial services, and is structured to give a big boost to GP's equity. It will also put GP in the unusual position of owning a stake in two accepting houses, Guinness Mahon and Britannia's recently acquired Singer & Friedlander.

The directors of Britannia Arrow said last night they were unable to see the advantages to the shareholders of either group of the proposed closer association as the groups are in direct competition.

Previous discussions between Britannia Arrow and Guinness Peat related to the possible acquisition by Britannia Arrow of Guinness Peat's merchant banking subsidiary, Guinness Mahon. Subsequent to these discussions Britannia Arrow acquired Singer and Friedlander instead.

GP, which has just resumed paying dividends after three years of losses, had by the stake from the United Kingdom Temperance and General Provident Institution (UKPI). The

34.3m shares represent nearly 23 per cent of Britannia's outstanding capital. GP is also buying £10m face value of loan stock, which is convertible into a further 10.8m shares, and which would give it 25.2 per cent of Britannia's enlarged share capital.

GP will pay for the shares by issuing 51.5m new shares of its own on a three-for-two basis. Taking GP shares at 70p each, the price is \$36m, equivalent to 105p per Britannia share.

The stock market reacted with disappointment. Britannia's shares, which had been driven as high as 115p by takeover rumours, fell 11p to 88p. GP closed at 69p, down 2p.

GP says the deal will give it a strategic investment in a retail financial services and fund management operation on both sides of the Atlantic, an old close relationship with UKPI, a major life insurance company and institutional investor.

Mr Alastair Morton, GP's chief executive, said GP has no plans for a takeover bid, but might raise its stake to 30 per cent if the opportunity arose. Britannia Arrow, which appeared to be surprised by the deal, had no comment, but Mr Morton said relations were "amicable".

GP is a diversified group engaged in wholesale financial services, banking, aviation, energy, property and insurance. The stake in Britannia Arrow brings it a retail-oriented group offering personal investment, banking and broking services.

Mr Morton said he would be exploring co-operation opportunities with Britannia, though he did not want to exaggerate the possibilities. He said GP's aim was not to become an integrated financial services company, but to manage its own and clients' assets.

The acquisition got a generally puzzled reaction in the City where its purpose did not seem clear, though one analyst said: "At least GP can't lose." UKPI, however, earned praise for a well-timed sale of Britannia shares.

Smiths Industries has acquired a small specialised rubber processing company, Uniflex, of Knaresborough, North Yorkshire, for a consideration believed to be in the region of £1.5m.

John Newman, Nicholas Shipley and Newman, Finance between them hold \$50,000 shares in Rock, amounting to approximately 5.2 per cent.

## Cement Roadstone £36m U.S. acquisition

By Charles Batchelor

Cement-Roadstone Holdings, Ireland's largest industrial company, is buying Callanan Industries, a U.S. aggregates, asphalt and concrete products group, for \$40m (£36m) cash. The acquisition will double CRH's U.S. business.

Callanan made a pre-tax profit of \$7.95m on turnover of \$70m in the year ended March 31 1984 and had book net worth of \$25m at that year end. It is expected to have net cash of \$8m at March 31 1985, while a revaluation of its fixed assets is expected to show a substantial surplus on book values.

It is based near Albany, New York, employs about 800 people, and owns six quarries with reserves of more than 400m tons, six gravel pits, 12 asphalt plants, a concrete block plant and three Spancrete (pre-stressed slabs and beams) plants.

Callanan is CRH's fourth and largest purchase since it began its move into the U.S. in 1978 with the acquisition of Amcor, a Los Angeles-based construction materials company, for \$12.2m.

CRH's U.S. operations generated revenues of \$84m and pre-tax profits of \$8m in the year ended December 1984.

Mr 'Doc' Marcelle, president and a 60 per cent shareholder in Callanan, will remain with the company, which will form part of CRH's U.S. holding company, Oldcastle.

The purchase will be financed from CRH's existing dollar loan facilities. The acquisition is expected to increase debt from a current 30 per cent to just over 40 per cent of shareholders' funds.

Callanan will give CRH a base in the North-Eastern U.S. where it expects major spending on the renewal of the road and bridge network. New York state recently issued a \$1.2bn transportation bond.

CRH's shares were unchanged at 57p yesterday.

## Dunlop seeks a better liaison with its U.S. shareholders

BY CHARLES BATCHELOR

Dunlop Holdings, the debt-laden tyre and rubber products group, has signed up Goldman Sachs, a leading U.S. investment bank, to improve communications with its U.S. shareholders.

Between 4,000-5,000 U.S. investors hold a combined 27 per cent stake in Dunlop in the form of American Depositary Receipts. They will play a crucial role in Dunlop's defence against the welcome \$33m takeover bid launched by BTR, the broadly-based conglomerate.

U.S. shareholders are barred by their own stock market rules from taking up shares under the planned 15-for-seven rights issue which forms part of Dunlop's \$122m refinancing package.

This may mean they opt to sell their shares to the highest bidder rather than back the Dunlop refinancing package to be put to a shareholders' meeting on February 8.

Dunlop also faces a problem in

contacting its U.S. shareholders who do not appear on its share register. It would have to work through Morgan Guaranty, the bank which has created most of the ADRs, the U.S. clearing corporation with which they are deposited, and U.S. brokers and banks.

Goldman Sachs has also been instructed to look after Dunlop's U.S. interests, including the Dunlop Tyre and Rubber Corporation, its U.S. tyre-making subsidiary.

Dunlop refused to comment on speculation that Goldman Sachs had been asked to find a rival bidder to BTR.

The bank, which is the largest partnership in the U.S. securities industry, was retained by Dunlop to assist in the industrial holding group, to fight off unwelcome takeover bids. Tilling finally succumbed to the bid

from BTR but Goldman Sachs brought in Mr Alfred Taubman, the multi-millionaire U.S. property developer, to buy Sotheby's.

In a separate move, Dunlop yesterday announced the reorganisation of its engineering division. Its profitable aviation business — including aircraft tyres and braking systems — is to be spun off into a new aerospace division with annual turnover of about £50m.

Dunlop's Angus Fluid Seals and Polymer Engineering businesses will be transferred to the engineering division from the industrial division to bring together all the automotive wheel and suspension activities under the same profit centre.

Mr Percy Plant, formerly managing director of BTR's Land Rover-Leyland International division, is to take over as chief executive of Dunlop's overseas businesses.

## Takeover Panel to seek clarity on Racal forecast

THE Takeover Panel is to meet Racal Electronics later this week to seek clarity on its profits forecast for the current year.

This follows the warning a week ago by Sir Ernest Harrison, Racal's chairman, that profits for the group would be substantially below expectations.

Representations have since been made to the Panel by County Bank, adviser to the board of Chubb and Son during the three-month contest which culminated in the takeover of the security group by Racal last November.

County Bank yesterday met the Panel to discuss its understanding that Racal, after the launch of its final offer on October 2, had forecast that it would achieve a "good improvement" in earnings for the year to March 31 1985.

Racal, however, has been inconsistent that the only commit-

ment it made was that contained in the offer document, which forecast profits "at least double" the 1978-79 level of \$81.62m.

Mr Robert Ogilvie of County Bank said after yesterday's meeting with the Panel: "We were not there looking for a witch-hunt. We believe we can rely on the Panel to look independently at the facts and come to a view on whether the forecast had been made with due care and attention."

Mr John Lee of the Takeover Panel said the panel had also met Hill Samuel, Racal's advisers, and would be meeting representatives of Racal later in the week.

"There can be a number of reasons why a forecast is not met," he said. "Our general objective would be to check that nothing negligent had taken place."

## LMI lays claim to 9% of Hoskins

London & Midland Industrials (LMI) increased its stake in Hoskins & Morton to 8.6 per cent by Monday's first closing date on its revised offer. It has acceptances from holders of 5.9 per cent of H & M's shares and owns a further 2.7 per cent.

LMI's increased offer, which has the backing of the H & M board, was topped on January 24 by a higher bid from Scottish Heritable Trust. The trust's bid does not have the agreement of the H & M board but the trust already has a 25.8 per cent holding in H & M.

LMI has extended its offer to February 17. It has acceptances from the holders of 160,334 ordinary shares (5.9 per cent) and 6,513 preference shares (32.6 per cent).

Shareholders approved a resolution authorising an increase in LMI's share capital and allotting new ordinary shares to holders of H & M shares at a meeting

## W. Allen to call in receiver

W. G. Allen and Sons (Tipton), the West Midlands boilermaker and engineer, last night decided to call in the receiver after abandoning attempts to find a buyer.

The company said it had encountered a severe shortage of working capital as a result of problems with Burgess Engineers and B&E Boilers, two businesses which it acquired last March.

It said that since January 16, when the receiver was appointed, possible bidders ended, it had put together an outline plan to restructure the group and had

identified possible support from a number of investors. Although it had received a further conditional offer, it had not proven possible to bridge the gap between the company's present position and the time when the reshaped or an offer could be concluded.

Shares in Allen were suspended at the company's request ahead of the announcement. They stood at 23p.

The directors said that investigations by the company's auditors, although not yet complete, indicated a substantial deficiency of assets in Burgess and B&E which might give rise

to a claim of some £1m. As a result its borrowings had risen.

Allen paid £164,000 in cash for the two businesses, acquired from Richardson Westgarth, in a move which it saw at the time as strengthening its boiler interest.

In its accounts for the year to March 1984, Allen had indicated that it would be due a sum of money from Richardson's if a deficiency existed in the net asset value agreed at the acquisition. It said last night that, having taken legal advice, it had been advised that such a claim would be well founded.

## Thorn EMI deal boosts computer software side

Thorn EMI electronics and electrical group has acquired EPS Consultants, a large supplier of computer decision support systems, in a deal worth up to £250m.

This purchase, which was confirmed yesterday, will make Thorn EMI's computer software

division the largest of its type in Europe, with approaching £30m, the company said. Thorn first announced that agreement on the deal had been reached in principle last September.

EPS made pre-tax profits of £2m on turnover of £11.7m in the year ended March 1984. Founded in 1973, it employs about 300 people and operates directly to 12 countries, with agents in a further 15.

This deal gives Thorn rights to the FCS-EPS range of software products. Thorn has bought the net assets of EPS Consultants and Financial Computer Systems, two businesses carried on by Dr P. J. Power and Dr G. O. Wilks, the group's founders. It has also acquired the capital of 10 subsidiary companies in Europe and North America.

Thorn will make an initial payment of £2.41m and up to £3.2m more, dependent on pre-tax profits of EPS outside North America for the year ending March 31 1985. Both payments will be in the form of Thorn shares. It has also settled for cash £2.55m worth of loans owing to the vendors.

EPS made pre-tax profits of £2m on turnover of £11.7m in the year ended March 1984. Founded in 1973, it employs about 300 people and operates directly to 12 countries, with agents in a further 15.

## Suter raises Lloyd holding

Suter, the refrigeration and hair-dressing equipment group headed by Mr David Abell, is understood to have increased its holding in F. H. Lloyd, the foundry and engineering company, to nearly 15 per cent through a purchase of shares yesterday.

A 10.85 per cent holding was disclosed yesterday by Suter, which revealed a 6.9 per cent stake less than a week ago after disposing of 11.7 per cent of hand took maker James Neill.

F. H. Lloyd's shares fell 1p to 50p yesterday, valuing the company at £12m.

Based in the West Midlands, Lloyd has been rationalised by chairman Mr Lewis Robertson and chief executive Mr John Pickard. But pre-tax profits fell in the first half ended September 29, 1984 reflecting severe competition and a sluggish market worsened by the miners' strike.

## Granville &amp; Co. Limited

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## Over-the-Counter Market

High	Low	Company	Price	Change	Gross Yield	P/E	Fully
144	122	Ass. Brit. Ind. Ord.	142	-2	8.6	4.4	7.9
151	135	Ass. Brit. Ind. CULS	150	-1	10.0	5.8	5.3
77	51	Dispersing Group	53	-4	8.4	15.1	5.3
42	28	Armstrong & Rhodes	38	-4	2.9	7.6	4.7
137	108	Bardon Hgt	125	-3	3.4	2.3	13.6
58	42	Gray Technologies	48	-6	1.8	8.8	8.0
201	170	CCU Ordinary	170	-3	12.0	7.1	—
182	150	CCU 1/2p Conv. Pref.	150	-2	18.7	13.8	—
102	100	Carbonium Ord.	100	-2	10.7	12.4	—
85	84	Carbonium 7.5pc Pf.	85	-1	10.7	12.4	—
50	48	Cindis Group	48	-2	6.6	10.6	6.1
72	61	Deborah Service	61	-2	6.6	10.6	6.1
274	182	Frank Horsell	274	-12	9.8	4.1	11.0
245	170	Frank Horsell Pf Ord	225	-15	9.8	4.1	11.0
31	25	Frederick Parker	31	-1	4.3	12.3	—
50	33	George Blair	50	-7	2.7	10.0	3.4
50	27	Ind. Precision Castings	27	-3	15.0	8.0	7.4
218	186	Isla Group	186	-3	15.0	8.0	7.4
134	106	Jackson Group	106	-4	4.9	4.7	4.9
285	213	James Burrough	213	-2	13.7	5.0	8.8
83	83	James Burrough Spc Pf.	82	-1	12.9	14.0	—
86	71	John Howard and Co.	86	-15	5.0	6.0	6.5
150	100	Lingaphone Ord.	150	-50	15.0	16.8	—
100	83	Lingaphone 10.5pc Pf.	83	-17	3.8	6.6	43.1
602	300	Minichew Holding	602	-302	5.7	10.0	15.8
120	31	Robert Jenkins	34	-2	5.0	14.7	—
80	28	Serutons "A"	30	-1	5.7	10.0	15.8
52	61	Torrey & Carlisle	61	-1	4.3	1.2	21.0
444	370	Travel Holdings	370	-4	1.3	5.1	12.4
27	17	Unilever Holdings	25	-2	7.5	8.0	12.3
58	41	Water, Alexander	58	-17	17.4	7.7	6.4
247	224	W. S. Yerkes	224	-1	17.4	7.7	6.4

Prices and details of services now available on Practical, page 48148

## Tenneco Inc

HAMILTON, TENNESSEE



1985 is our 30th consecutive year of cash dividend payments

The 1985 first quarter dividend of 73c per share on the Common Stock will be paid March 12 to stockholders of record on February 8. About 213,000 stockholders will share in our earnings.  
Walter W. Sepp, Secretary

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Issued and to be issued fully paid £595,000

In connection with a placing by Simon & Coates of 1,470,788 Ordinary shares of 10p each at 90p per share, application has been made to the Council of The Stock Exchange for the grant of permission for the whole of the issued share capital of Bluebird Toys PLC to be dealt in on the Unlisted Securities Market. A proportion of the shares being placed are available to the public through the market. It is emphasised that no application has been made for these securities to be admitted to official listing. Particulars relating to the Company are available in the External Statistical Services and copies of the Prospectus may be obtained during normal business hours on any weekday (Saturdays excepted) up to and including the 22nd February 1985 from:

SIMON &amp; COATES

1 London Wall Buildings, London EC2M 5PT

## GALLAHER

## Sales and profits at record levels from a wider and stronger spread of interests

Sales and profits before tax were again at record levels in 1984, with sales 10% ahead at £2,839m and profits 7% up at £108m. Excluding the four years of optical back payments in 1983, the overall profit increase was 16%.

## Summary of Results for year ended 31st December, 1984 (unaudited)

	1984 £ million	1983 £ million
Group Sales	2,839.1	2,579.7
Group Trading Profit	122.2	110.4
Interest Charges	(14.0)	(9.3)
Group Profit (before Taxation)	108.2	101.1

## Tobacco

Volume sales of Gallaher cigarettes manufactured in the UK were 1% ahead. The benefit from a good domestic market share and a strong rise in exports more than offset a decline in the total UK market. Benson and Hedges Special Filter and Silk Cut continue to dominate their sectors.

Gallaher cigar sales in the UK were also up, with Hamlet further strengthening its position as market leader. Pipe and roll-your-own tobacco markets were depressed, but the Group's market share rose, with Mellow Virginia and Clan both strong.

Overseas tobacco companies were just ahead of 1983. A better performance by Gallaher (Dublin) more than offset lower profits from Niemeyer, affected by price competition in the West German market.

## Optical

Results for the full year showed a positive trend after excluding all DHSS back payments. In the UK, volume increased in a changing market. Both the Italian and Spanish companies had good years.

## Engineering

Stronger demand both at home and abroad, plus the benefits of reorganisation, are reflected in the profits rise of 57% to £6.6m. Mono and Saunders Valve both achieved notably better results after a long period of reorganisation. The Italian subsidiary, FIP, increased sales volume, but margins remained under competitive pressure.

## Distribution

All the major companies performed well. Overall results would have shown a greater increase but for the cost of reorganising certain activities. The newly acquired drinks and food vending business, Vendepac, had a good year.

## Office Products

The Ofrex Group achieved sound progress with profits markedly up on 1983. Particularly good results were achieved by Rexel, Eastlight and Lawtons. The overseas companies were also well ahead, and there were important gains in export markets.

## Housewares

The Prestige Group had a good year. Results for the seven months since acquisition were up to expectations and provided a satisfactory net contribution after acquisition financing costs.

## Outlook for 1985

Gallaher enters 1985 with a wider and stronger spread of activities in the UK and overseas. It is well positioned to make further progress provided domestic taxation of tobacco products is held at a realistic level.

S. G. CAMERON, CHAIRMAN

Gallaher Limited, 65 Kingsway, London WC2B 6TG. Tel: 01-242 1290. Telex: 25505.



## UK COMPANY NEWS

## Gallaher up 7% to record £108m

A RECORD year has been experienced by Gallaher, the major cigarette manufacturer best known for its Benson & Hedges and Silk Cut brands. Profits before tax improved by 7 per cent in 1984 from £101.1m to £108.2m on turnover ahead by 10 per cent at £2.94bn.

Tobacco, by far the largest group operation, saw sales pass the £2bn mark and trading profits rise by £3.3m to £33.5m. Volume sales of Gallaher's cigarettes manufactured in the UK increased by 1 per cent.

Mr S. G. Cameron, chairman

of this subsidiary of American Brands, says that the benefit from a good domestic market share and a strong rise in exports more than offset a decline in the total UK market. Benson & Hedges Special Filter and Silk Cut, he says, continued to dominate their sectors.

Cigar sales in the UK were also higher, with Hamlet further strengthening its position as market leader. While pipe and roll-your-own tobacco markets were depressed, Mr Cameron says that market share increased,

with Mellow Virginia and Glen both strong. Overseas tobacco companies were "just ahead" of 1983. A better performance by Gallaher (Dublin) more than offset lower profits from Niemeyer, which was affected by price competition in West Germany.

Total group tobacco sales, excluding V&A for the year amounted to £2.09bn compared with £1.94bn. Gallaher's optical operations contributed £14m to trading profits. This compares with £21.2m, which included four

years of back payments from the DHSS.

Mr Cameron points out that if the back payments were excluded then Gallaher's overall pre-tax profit increase for 1984 would have been 16 per cent.

Looking ahead, Mr Cameron says that Gallaher has entered 1985 with a wider and stronger spread of activities both at home and overseas. He adds that the company is well positioned to make further progress provided that domestic taxation on tobacco products is held at a realistic level.

## Microgen at £3m on Eurocom contribution

A LEAP in pre-tax profits from £224,000 to £302m by Microgen Holdings for the year to the end of October 1984 follows its acquisition last autumn of Eurocom Data Holdings, formerly the National Westminster Bank's computer output to microfilm subsidiary. A final dividend of 7p raises the total from 6p to 10p, and is 1p ahead of the payout forecast at the time of the acquisition.

A one-for-one scrip is also proposed on the 10p shares, which will then be split into two 5p shares. Shareholders will therefore hold four 5p shares in place of each 10p share held when the bonus issue is made.

Earnings per share are shown as 34.1p (14.5p) before extraordinary charges.

The directors point out that Eurocom's results for the year have exceeded expectations. Figures for 1984 include Eurocom, and figures for 1983 are for Microgen alone.

They say that Microgen, without Eurocom, was already budgeting for substantial increase in sales and profits for the current year. With the added strength which this acquisition brings to the group, the directors of Microgen, which converts computer print-outs into microfilm and microfiche, say that they look forward with confidence to another year of growth.

Microgen's computer output microfilm business continued to benefit from growing demand and from major productivity drives referred to last year. The sales team produced results well in excess of targets; this has added to costs for 1984 whereas the major benefit to turnover and profit will be in 1985.

At Systemset, computerised phototypesetter, the emphasis was on securing a platform for sustained future growth in computer aided phototypesetting, but record profits were achieved.

Excluding the contribution from Eurocom, group turnover was £5.63m and pre-tax profits were £1.63m. Earnings per share would have been 36.1p. Shares issued for Eurocom will not qualify for the final payment.

For the enlarged group, profits were subject to tax of £1.88m (£491,000) and there were minorities this time of £103,000. Extraordinary charges rose from £182,000 to £255,000, comprising acquisition and listing costs and provision for deferred tax. Last year Microgen moved from the USM to a full listing.

## MINING NEWS

## South African gold production continues on an upward trend

BY GEORGE MILLING-STANLEY

THE UPTURN in South African gold production which began three years ago continued in 1984 with output rising to 218.8m oz, according to figures released yesterday by the Chamber of Mines of South Africa.

This represents a slight increase on the previous year's production of 215.5m oz, although output from the world's most important source of gold is still running well below the peak year of 1970, when 1,000.4 tonnes were produced. Last year's production from South Africa was equivalent to 68.5 tonnes.

The latest figure is, however, unlikely to have much impact

on world production statistics, even though South Africa customarily accounts for something like three quarters of mine supply from the non-Communist world, and just under 60 per cent of total world output. Much more significant in terms of world production statistics will be the output from a number of new mines, notably Ok Tedi in Papua New Guinea, the McLaughlin project in California and Kildonan in Australia. Last year's production is discernible in 1984's quarterly reports from the South African mines of boosting mill throughput in response to the steady fall throughout the year in the

gold price as expressed in dollars. Where possible, the mines also tended to concentrate production in areas containing higher-grade ores, in an attempt to maintain dollar receipts. The increased production has little relevance for the financial results of the South African mines, which prepare their accounts in terms of the local currency. The South African rand depreciated steadily during 1984 against the U.S. dollar, the currency in which the gold is priced throughout the world, with the result that the mines have for the most part made record profits in local currency terms, in spite of the weakness of the gold price in U.S. dollars.

## Eastern Pet. bids for Samantha

AUSTRALIA'S Eastern Petroleum has made its long-awaited move to secure control of the promising Horsehoe Lights gold mine in the Meekatharra area of Western Australia by making a takeover offer for the 50 per cent of Samantha Exploration it does not already own.

The London share market, which had been expecting an offer for some time, remained unmoved last night, leaving both share prices unchanged with Samantha at 54p and Eastern at 24p.

The terms of the offer are two shares of Eastern for each Samantha share, valuing the latter company at A\$17.3m

(£12.7m). This compares with the recent one-for-three offer from Barrick Mines, which valued Samantha at A\$13m.

As both bids are well below the market value of Samantha, which is valued at A\$25m, the offer seems to have been designed principally to circumvent the restriction in Australian company law which limits a company to a 30 per cent interest in another company unless it mounts a full takeover offer. Once a full bid has been announced, a predator may raise its stake without limit through on-market purchases.

The main attraction of Samantha to both bidders is its

10.1 per cent interest in Horsehoe Lights. This holding represents the balance of power in the mine, with Barrick an operator holding 45.15 per cent and Eastern 35.3 per cent.

A degree of armistice has developed between the two major partners, with the Eastern group claiming that it has not been allotted three seats to which it is entitled on the board of the joint venture company, Horsehoe Lights Gold.

After a lengthy period of negotiation, Eastern has clearly decided that securing a majority interest in the equity of the joint venture company is its only way of securing its aims.

## Haynes profits double to £836,000

WITH STRONG sales from its 88 new titles, Haynes Publishing Group doubled its pre-tax profits from £417,000 to £836,000 in the six months to end-November 1984.

The directors of this Somerset-based group, the world's largest publisher of motor books, have lifted the interim dividend from 3.5p to 4p, partly to reduce disparity and partly in recognition of "these good results". Last year a total of 12p was paid on profits of £1.37m.

Sales increased by £955,000 to £4.55m, giving a trading profit of £782,000 (£576,000). Some £615,000 (£315,000) of this came from the UK market, with £167,000 (£81,000) contributed by the U.S.

Mr Haynes, group chairman, reports that sales for the second

half are running ahead of budget. As well as the new books, those on the backlist also continue to do well, and, with sales still under tight control, he believes that the results for the second half will show further improvement over those for the first.

The new £0.5m five-colour press is now operational, and the chairman says that the company is continuing its investment programme by installing new photo-typesetting equipment based on laser technology.

Its policy is to replace machinery with the most up-to-date products when it calculates that a significant benefit will consequently arise.

The pre-tax figure includes rent received of £32,000 (£26,000) and interest of £22,000 (£16,000).

There was no interest paid (£1,000). The group, which has close company status, paid £311,000 (£264,000) in UK tax and £74,000 (£21,000) in the U.S.

## Leda Investment

Leda Investment Trust's net asset value per 5p capital share stood at 170.1p at the end of 1984. This compares with 158p shown a year previously.

Net revenue for the year amounted to £291,241, against £242,654. Gross revenue came to £400,687 (£358,574). The second interim dividend is being raised from 3.01p to 3.5p, making a total of 5.6p (5.04p). Earnings per 20p income share were stated at 5.55p (4.57p).

## Access Satellite over £1m at midway

IN ITS first results as a USM-quoted concern Access Satellite International has turned in pre-tax profits of £1.16m for the six months to October 31 1984, and is to pay a net interim dividend of 1p per share, an increase of 50 per cent over the prospectus forecast.

No half-year comparative figures are reported, but the midway taxable figure is only £220,000 short of the last full

year return. Mr Martin Wardman, the chairman, says that trading in the current half is progressing well and he looks to the future with confidence.

Turnover for the half-year came to £2.65m, against £3.23m for the 12-month period. The principal business of the group is the manufacture, sale and hire of work platforms for the construction and civil engineering industries. It changed its

name from Morland Securities by way of a reverse takeover of that company last October.

The interim tax charge came to £517,000, leaving net profits at £643,000 or 4.47p per share. Retained earnings were £484,600.

In the prospectus forecast the directors stated that they would recommend total dividends of 2p per share for the current year, payable in a ratio of 1:2

between interim and final. They then recorded prospectus as "excellent".

In the U.S. sales are going well and the network of local distributors there is expected to increase substantially during 1985. The group is currently selling through distributors in Delaware, Georgia, Florida, Massachusetts, North Carolina and Texas.

## Equitable Life maintains bonus rates

Equitable Life Assurance Society, the oldest mutual life company in the world and originator of with-profits life contracts, is maintaining its interim bonus rates for 1985 on life and pensions contracts.

The society is one of the few life companies not on an annual bonus system. It operates on a three-year period for full bonus declarations, the next declaration being at the end of this year.

Thus on assurances, the rate remains at 15.25 per cent of the sum assured and £3.50 per cent of attaching bonuses, while on individual pensions it remains at 28.50 per cent of the basic benefit and attaching bonuses. However, the society is increasing its terminal bonus rates for claims in 1985. On assurances, the maximum rate is lifted from 37.1 per cent to 45 per cent of the basic benefit and attaching bonuses, while on pensions the maximum rate is raised from 35.1 per cent to 45 per cent.

## Yearlings at 131%

The interest rate for this week's issue of local authority bonds is 13.1 per cent, up 1.1% of a percentage point, and compared with 9.1 per cent a year ago. The bonds are issued at par and are redeemable on February 5 1988.

## Winding up orders for 114 companies

Compulsory winding up orders against 114 companies were made in the High Court. They were:

P.A.P. Window Systems, Moughan and Macken, Kennet-side Plastics, Ernsborough, Anton Freight, D. Rogers & Sons (Transport), Red Rose Building Contractors, Jatun Metals and Burdett Wastepaper Co.

Oakleigh Haulage, Crown Distillers, Mark John, Fast Foods (St. Ives), Datchell, Custom Building Contractors (East Midlands), Intogold, International Safety Services and Votelynn.

Melton Printers, Norfolk and Norwich Aero Club, Toforest, Beaufort (Angley), Monobuild EC2, Grant, Easton, Meragold, (Construction Services), Meshberry, Sound Reproducing Equip-

ments (Bristol) and Creative Control, Moloney Construction, Farron-bay, Parkway Forwarding, Crownmead, Asian Publishing, Capitol Exporters (Chemicals) and Anglo-Scot Meat Packers.

Industrial Services (Liverpool), Strongwright, Chenebond Enterprises, Classic Dry Cleaners, Factorford, Frux Day, G. B. Hirst Tankers (1982), Holour and Inter-Clean, Cyclesign, Great Western Garages, Carlisle Kitchen Centre, Steele Engineering, C. H. Jones (W'con), Benson Lifts, Amex Fashions, Cobmann Enterprises, Exportech (Middle East), Euro-projects and Fawcett.

W. K. Ritchie, Lindaville, Mystery Studios, Randworth, Medrange, Kleenaway Industrial Chemicals, Baldock and Pearce, Beeclass, Dixon Industrial Roofing, Holden and Hollins, Industrial Supplies (Eastern) and L.B.L. Doorfittings.

Mildberry, Manoverrown, Style-vode, R. G. Jenkins, Wheeltrack Services, Treso, Dave Wells Car Sales (Bournemouth) and Graico Industrial Supplies.

Priory Contractors, Ryburn Electrical Company, Vintage Steak Bar (Doncaster), Brock-house Construction Company, Happy Days Agency and Promotions, Thompson Leisure, Sussex Ballistics and Sedateport, Libra Wines, Philip, Coole Construction, Re-Tain, Churchill Blood Stock, FT Engineering, Sentry Home Security Company, Flippage, Energy Bond Marketing, Beaumagic and Corporate Graphic.

GMT Co. Midasian, Developments and Components International (UK), Swannfield, Mardpare, Hurd Textiles, Cheltenham Business Centres, Cheslyn Upholstery, Mikes Sheds (1981) and SK Hand Tools Manchester.

Westerlo, Gloves (Manufacturing), William Newton & Sons, Biffell Quarries, Stedell, United Trading Corporation, Frizprez, Thorne Brothers Builders-Decorators, Spanfour, Wood-rush, L.S.C. Engineering Contractors (Luton) and C. Plater & Son.

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange. It does not constitute an invitation to any person to subscribe for or purchase any of the 11% Convertible Unsecured Loan Stock 2003-2004 with Warrants attached.

The Council of The Stock Exchange has admitted the above mentioned securities to the Official List.

## SHIRES INVESTMENT p.l.c.

(Incorporated in England and Wales with registered no. 386561)

## Issue of 11% Convertible Unsecured Loan Stock 2003-2004 (with Warrants attached)

£2,690,860 11% Convertible Unsecured Loan Stock 2003-2004 (with Warrants attached) is being issued by way of rights to the ordinary shareholders and the existing Warrant-holders of the Company. The Loan Stock will be dealt in separately from the Warrants from 15th April 1985.

Details of the 11% Convertible Unsecured Loan Stock 2003-2004 are available in the Extel Statistical Services.

Copies of the Listing Particulars published in connection with the rights issue may be obtained during normal business hours today and tomorrow from the Company Announcements Office of The Stock Exchange, London EC2. Copies may also be obtained during normal business hours on any weekday (Saturdays excepted) up to and including 19th February 1985, being the last day of acceptance and payment in full for the rights, from:-

Shires Investment p.l.c., Ravensbourne Registration Services Ltd., Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Laing & Cruickshank, Piercy House, 7 Copthall Avenue, London EC2R 7BE.

30th January 1985

## WILLIAMSON TEA HOLDINGS plc

## Chairman's Additional Remarks

Addressing the Annual General Meeting of Williamson Tea Holdings plc, the Chairman, Mr R. B. Major said:

Since the publication of the Report the Indian Elections have returned Mr Rajiv Gandhi to power as Prime Minister, an event of the utmost importance to the world, the Indian Tea Industry and our Company as it is certain there will be continued political stability in India.

World demand continues to outstrip supply and tea prices throughout the world continue to boom. There seems to be an insatiable demand for tea in India, the Middle East and Africa. It takes planning, finance and time to plant and bring to maturity extensive new tea acreages and it seems unlikely, therefore, that world supply will exceed demand for some time and prices should remain at higher levels than have previously been the case, and though costs will continue to escalate, prospects appear encouraging. Our crop up to 31st December is in excess of last year's. At this stage no-one can possibly forecast what the spring crop will be, as this is dependent on the rainfall, but provided even an average harvest is obtained the total crop for the year should be well up to average. Sales made to date are very satisfactory and, bearing in mind that the change of accounting made last year will not again depress profits, indicate that the profits for the current year will be well in excess of 1983/84.

£391,000 of pre FERA 1974 Indian profits still remain in India, negotiations on the normal tax assessments, always a lengthy process, continue but I hope that most of this matter will be resolved in 1985.

In Kenya, Government permission has been given for an increase in George Williamson Kenya Limited's capital by a 1 for 2 bonus issue to shareholders. GWK have been appointed Managing Agents of Mau Forest Ltd, a tea estate in the Kericho area belonging to The Anglo Indonesian Corporation.

Roma Tea Holdings plc was acquired by our Secretaries, George Williamson & Co Limited, on the 28th December last. Their combined holding in Williamson Tea Holdings is now 49.5%.

We are negotiating with Waterwise Developments (New Zealand) Limited concerning the manufacture of the Waterwise Burner. These burners have already proved themselves in tea dryers in Africa and elsewhere where our overseas subsidiary are agents.

Once again I take pleasure in having this opportunity to express our gratitude to the Agents, Visiting Agents, Management, Staff and Labour both overseas and in Accrington for their efforts in producing such satisfactory results.

The report and accounts were adopted.

AS ALGERIA shifts from being an oil exporter with a marginal amount of natural gas to being a gas exporter with a marginal amount of oil, Sonatrach, the country's state oil and gas monopoly, faces difficult decisions.

In the past, Sonatrach has behaved, even when selling gas, like a militant oil exporter, insisting upon both the highest possible oil price and a direct link between the price of oil and gas. In 1981 and 1982, Algeria scored famous pricing victories over utilities in Belgium, France and Italy.

Today, however, the European gas glut has undermined its ability to sell gas on its own terms. In response, Algeria has shown signs of softening its dogmatic marketing principles, fuelling speculation among gas buyers that the world's fourth largest gas power is shaping up for a renewed assault upon U.S. and European markets.

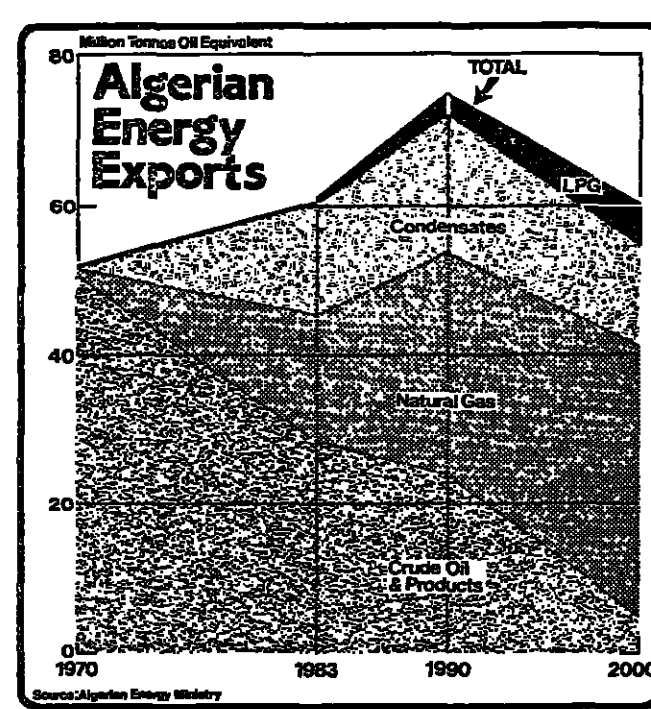
Algerian oil reserves will run out before the end of the century, but the country's

## Signs of a more flexible approach

natural gas reserves of almost 3,000bn cubic metres are exceeded only by those of the Soviet Union, the U.S. and Iran.

Signs of a more flexible approach became apparent in 1983 and 1984 as initial volumes of gas exports to Belgium and France were cut. The original contract with Belgium's Distrigaz, from 5bn cubic metres a year over 20 years at a price of \$3.95 per million BTUs, was reduced to \$1.5bn in 1983-84, although it has since risen again. Gaz de France, meanwhile, persuaded the Algerians to agree a temporary reduction of French gas purchases last summer. Such flexibility in offshore is normal for Gasunie, the Dutch gas utility, but almost unheard of for the Algerians.

Although Algerian officials have never commented publicly on these matters—the formal position remains one of astute adherence to a tough and inflexible marketing posture—the case for pragmatism is a strong one. If it stands on principle, Algeria could lose its 11 per cent share of the West European gas market when its major contracts start to expire at the end of this decade. Algeria's position on gas prices is not wholly unlike that of



Graham Laver



Mr Belkacem Nahl, Algeria's Energy Minister

By Francis Ghiles and James Ball

## Gas glut set to soften Algeria's hard line

Saudi official price, may turn to potentially even cheaper Malaysian and Indonesian LPG supplies.

Proponents of the hard line on prices abound in Algiers. Dr Yusuf Yussuf, Sonatrach's deputy general manager, recently suggested that Sonatrach would rather reject LPG into the ground than sell it below an acceptable market price. LPG and condensates are by-products during the extraction of oil and natural gas. To re-inject it into the underground reservoirs requires both the cost of separating it and re-injecting it to be incurred over and over again as it is impossible to separate it underground. But at the same time, Sonatrach last year sold 2m tonnes of LPG to Europe—apparently at market prices.

Sonatrach's marketing strategy will be of critical importance to Algeria's economic future. Exports of gas in LNG form and LPG, most of which is sold to Europe, accounted for about 60 per cent of Sonatrach's \$13bn foreign income last year. That compares with 4 per cent in 1970 and projections of over 90 per cent by 1990.

The state company's handling of the large U.S. market will be of particular importance. With the company agreed to play as it has with Distrigaz of Boston, the role of a "penk shaving" supplier—supplying the gas mostly during the winter when demand in the Northern Hemisphere is at its peak?

Because the LNG processing facilities in Arzew and Skikda are already working below capacity—by a factor of one third overall—and because some Algerian LNG carriers are in mothballs, there are added costs in holding out for a premium price in the U.S. market.

But market conditions in the U.S. do not favour such premia. The wellhead price of newly contacted domestic gas is around \$3 per million BTUs, almost a dollar below the Algerian wellhead price before liquefaction. Canada has recently cut its export prices to \$3.15 to revive the flagging volume of its own contracts. Europe too is a buyer's market, as Norway has discovered in its negotiations with British Gas over the Sleipner Field. With Europe oversupplied until the mid-1990s, import customers are putting pressure

on their suppliers to be more flexible on prices and delivery. As the current league leaders in European gas marketing, the Dutch and the Russians have shown, compliance means more business in the future. Algeria is therefore unable simply to sit tight and wait for its current contracts to run out.

The other complicating factor in the Algeria gas equation is the Trans-Mediterranean pipeline, running in 1981 between Algeria and northern Italy. Ready for first gas in 1981, it did not because of disagreements over prices start to carry gas until August 1983.

The pipeline provides both the heat and the cheapest means of transporting Algerian gas. Algerian gas comes out of the wells at such high pressure that no compressor stations are needed in Algeria to push gas over 400 miles to the Tunisian border.

But Algeria, along with some of its customers, is saddled with a huge investment in

## It would be unwise to count Algeria out

LNG facilities, in spite of the cancellation in 1982 of a proposed phase three of the country's LNG plant.

But in the end, the existence of Algeria's surplus LNG plant could provide the key to its future marketing plans. Unlike Norway, whose ability to maintain gas exports depends upon heavy investment in new offshore fields, Algeria has both the gas and the production and processing facilities available to sell additional gas, arguably at marginal cost, if it is prepared to sacrifice its pricing principles.

The evidence of Sonatrach's recent behaviour, if not the public pronouncements of Algerian ministers and officials, is that Algeria will be coming increasingly pragmatic as, in a sense, it must do when gas is trading at a 30 per cent discount to oil and oil prices are falling.

Certainly other gas producers, who are inclined to imagine the future of the European and U.S. markets without a significant Algerian presence, would be unwise to count Algeria out.

ALGERIAN GAS EXPORT CONTRACTS		
Customer	Volume (bn cu mtrs./yr)	Expiry Date
Gaz de France	0.5	1990
Gaz de France	3.5	1992
Distrigaz (U.S.)	1.2	1998
Enagas (Spain)	14.5	1997
Gaz de France	5.15	2002
Distrigaz (Belgium)	2.5	2002
Panhandle (U.S.)	suspended	2002
Transmed pipeline		
Snam (Italy)	112.36	2008

1 Enagas has consistently taken only about a third of its contracted obligation and the matter is under arbitration. 2 Maximum level planned, in 1984 roughly half of this level was reached.

Algeria's gas exports



# STANSTED REVISITED



This is the third time that the British Airports Authority have tried to foist Stansted upon the public.

On two previous occasions they have failed. But at the third attempt, and after the expenditure of millions of pounds and even more millions of words, their persistence has brought them a favourable report from the Public Inquiry Inspector.

The development of Stansted Airport is now the subject of an adjournment debate.

It is a vital opportunity for M.P.'s of all parties to show how they stand on issues of crucial importance to millions of their constituents.

## NON-PARTY PRINCIPLES

The basic issues are unchanged since 1981.

\* Should £1,000 million be spent on duplicating facilities which are already provided at the regional airports?

\* Is it right to force all international passengers, willy-nilly, through the South East?

\* Is it right to ignore the wishes of the present inhabitants of Stansted?

\* A developed Stansted would severely degrade international services from the regional airports. Does this square with the view of the Government White Paper recognising airports as prime centres of economic recovery within the regions?

\* Why should investment and employment be taken away from the severely disadvantaged regions and forced upon one of the very few remaining places without an unemployment problem?

All these are questions of common sense and natural justice – not of party politics.

Since 1981 the case against Stansted has been put by the North of England Regional Consortium on behalf of millions of people of all political persuasions and of none, from all sections of the public and from every branch of commerce and industry.

**ALL WE ASK IS FOR YOU TO MAKE  
YOUR OPINION KNOWN WHEN YOU  
HAVE THE OPPORTUNITY.**

The Consortium includes:

the County Councils of Cheshire, Cleveland, Cumbria, Derbyshire, Durham, Greater Manchester, Humberside, Lancashire, Merseyside, Northumberland, Tyne and Wear, South Yorkshire and West Yorkshire

The City Councils of Carlisle, Leeds, Liverpool, Manchester, Newcastle and Sheffield.

The Airport Authorities of Blackpool, Carlisle, Humberside, Leeds/Bradford, Liverpool, Manchester, Newcastle and Teesside.

If you would like to receive the detailed and quantifiable facts behind this announcement, please write to:  
North of England Regional Consortium, PO Box 532,  
Town Hall, Manchester M60 2LA.

*the case for the*  
**NORTH**  
North of England Regional Consortium



## TECHNOLOGY

FIRM BUSINESS APPLICATIONS ARE APPEARING FOR OPTICAL STORAGE

## Laser disk stores newspaper's past

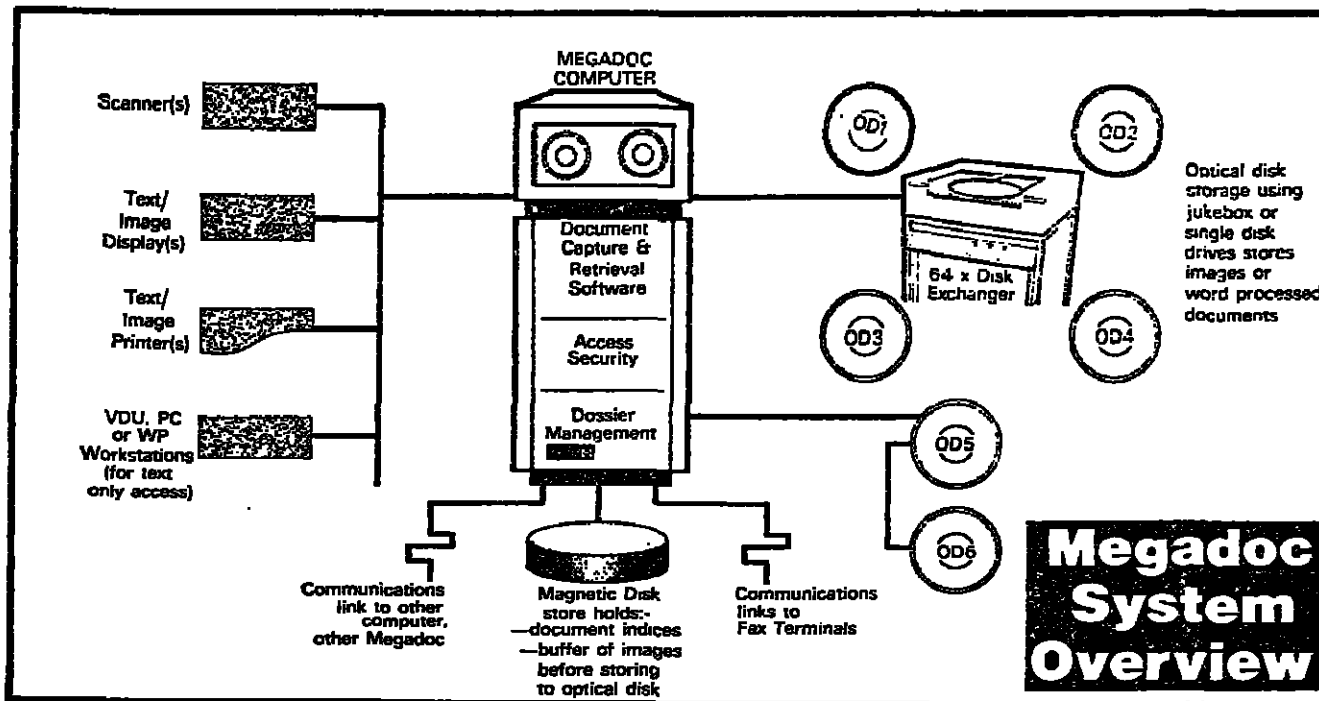
BY GEOFFREY CHARLISH

THE PHILIPS optical disk storage system, Megadoc, is now at three pilot sites in Europe, including a newspaper and a building society.

Although a dozen electronics majors have either revealed, or are developing, optical disk systems, announcements of installations have been few and far between. The object of these companies efforts is to produce systems that can store large quantities of documents at very low cost and compete with conventional microfilm and microfiche.

For example, the U.S. Library of Congress and General Electric in the U.S. have integrated automation systems using Thomson-CSF disk drives. Recently Pergamon revealed it will be using Drexler technology for electronic publishing. Ciba Geigy (via Ifford in the UK) and the Blue Cross insurance group in the U.S. have also been licensed by Drexler.

The pioneer installation for Philips' Megadoc is at Gruner and Jahr, publisher of Die Zeit and Stern magazine. Until now, microfiche (postcard-sized pieces of film holding about 100 page images) have been used for storing Press clippings for journalists' use. The publisher has installed two scanners recording images on a pair of



The object is to produce systems that can store large quantities of documents at very low cost.

one gigabyte (one thousand million characters) optical disk drives.

Basically, the scanners send a tiny spot of light across the page in fine horizontal lines one under another. At each moment, the amount of reflected light is registered by a light sensitive device and given an electrical "on-off" digital code which is recorded on the disk.

Scanning rates are from 10 to 18 A4 pages a minute, but Philips plans to raise this to 50 with automatic feed.

At Die Zeit, past newspaper pages are being scanned and the disks transferred to the journalists' access system. New pages are added daily.

Each access station has an IBM terminal that works with the existing IBM mainframe for indexing, and a second high definition terminal on which extracted images are displayed. Ultimately there will be four image displays, two image printers and a file of 4m images equipped with a "juke box" disk handler able to access up to 128 gigabytes of storage.

Holland's first system, at the Zwolle office of the Dutch Land Registry, runs on a Philips P4000 office automation system with document indexing and image management software. It stores copies of deeds of sale and mortgages for two Dutch municipalities.

In Münster, Landes Bau Sparkasse, a German building society with 2.5m account holders, previously used COM (computer) output on microfilm to store copies of computer-generated outgoing letters. COM is a technology which takes text and data straight from a computer and "writes" it on to microfiche,

which are accessed via enlarging viewer/printers.

In the new system, LBS Münster continues to index the material on its IBM mainframe, but the magnetic tape holding the text goes to the optical system instead of the COM machine. From the P4000 Megadoc workstation, documents can be extracted from the optical store, viewed within a few seconds, and printed out. Some 10 gigabytes of information will be stored annually.

The next step for the building society will be to add scanners to handle incoming mail. The same optical disks will then deal with both digitized page images and keyed text. It is expected that the building society's staff will be able to handle customer queries much more efficiently.

In optical recording, tiny "pits" are burned by an extremely fine laser beam on to a rotating tellurium-surfaced disk, rather like a gramophone record. The "grooves" of pits record digital codes representing the small scanned elements of an image. To "play" the record, another laser tracks the microscopic pits and by reflecting a photosensitive diode registers the codes. These are then turned back into image elements and can be re-constituted on a workstation screen.

Philips says the life of the tellurium surface "appears to be about 30 years, or 15 times that for the equivalent magnetic disc—which needs to be re-written every two years at least."

In addition, since the heads are positioned several centimetres from the surface, exchangeable disk design is straightforward. There is no sensitivity to dust, so disks can be handled and stored in a normal office environment.

Optical disks allow very dense recording: Philips produces double-sided 300 mm (12 inch) diameter platters holding two gigabytes of text. This is roughly 2,000,000,000 characters, which practice means that some 300,000 pages of text can be recorded, says Philips.

Storage cost is, therefore, very low. In terms of the medium alone, the page cost is a mere 0.004p. But in addition, the hardware cost is kept down because mechanical

tolerances are not critical—optical methods are used to keep the laser beam on course. Philips says the cost of the drive itself is no more than that of a magnetic disk system which

In optical recording, tiny pits are burned by a fine laser beam on to a rotating disk

has only 5 per cent of the capacity.

Megadoc is evolving as part of the P4000 office system, with prices from £80,000. Text, computer-generated data, pictures and indexing will soon be handled on a single high definition screen.

In addition, the company has chosen the CCITT Group 3 facsimile standard for digital storage, allowing images to be easily sent and received from remote sites over the fax network. Philips Business Systems is on 0206 575115.

## Computers

## Speeding up data access

MODERN computers execute millions of instructions a second: the electro-mechanical magnetic disk systems on which they depend for their information operate in thousands of a second.

There is, therefore, a performance bottleneck in the system, a little like an accountant sending an electronic calculator sending his secretary separately to the files for every figure needed in a calculation.

A small American company, U.S. Design Corporation of Lanham, Maryland, has an answer to this problem which is achieving critical acclaim.

John Ball, of stockbroker Paine, Webber notes for example: "No existing disk systems are thought to match the level of performance of the Series VIP products. We believe the company may have a competitive lead of perhaps 12-24 months."

U.S. Design calls its solution Virtual Information Processing. It is based in studies which show that roughly 90 per cent of the time needed for a disk system to access requested information is spent in positioning the read/write head over the appropriate track on the disc.

Furthermore, only 5 per cent of the information on the disc is accessed for close to 95 per cent of the time.

So U.S. Design built an intelligent disk controller capable of handling up to four Winchester drives and a cartridge tape drive.

The "intelligence" in the controller enables it to analyse patterns of data use and remove the most frequently requested information—the 5 per cent previously identified—off the disk and into semiconductor memory built into the controller itself.

Access to that information is, therefore, virtually instantaneous. U.S. Design uses two more tricks. A way of predicting what information is likely to be asked for next and a method of maintaining the read/write head close to the most heavily accessed information.

U.S. Design, with revenues of \$8.4m in 1984, is still very small but the novelty and quality of its approach should pay off in the next few years.

ALAN CANE

## Components

## Growth in circuits

SRI INTERNATIONAL, the high technology research and consultancy organisation, predicts that by the mid-1990s, the market for gallium arsenide semiconductor will have reached \$10bn—which was about the value of silicon devices sold in 1982.

SRI's Mr Kenneth Taylor believes the growth will have tremendous impact on companies that use and make silicon based products and on those that supply equipment, components and materials to the semiconductor industry.

However, Mr Gordon England, executive director of SRI for Europe, Africa and the Middle East, takes the view that Europe may not take quite the back seat it took in the silicon world.

SRI is currently conducting a study designed to clarify the issues and opportunities surrounding this new market for the period 1985 to 1992.

## Manufacturing

## Integrated automation

LOGICA, the UK systems and software house, in conjunction with several European companies, including Matra and Olivetti, is to develop a computer-aided manufacturing system (CIM) at the FN (Fabrique Nationale Herstal) plant in Belgium.

The consortium project is valued at about \$6m and will involve 100 man-years of effort over a five-year period.

The objective of CIM—a technique still in its infancy—is to unite the various computer and control systems found in factories and which have developed independently in isolated "islands of automation" over the years.

At FN, the system will automate procedures in the precision machine shop, including planning, production scheduling, robotics control, transport, machining and assembly.

An open computer architecture is to be used, allowing expansion via different manufacturers' equipment, in line with defined standards.

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## Sticky robots

A RECURRING problem in industry—training operators to extrude adhesives from dispensers over complex paths, and then expecting them to do the job consistently over and over again—has been solved. It is claimed, by the Cranfield Polystyrene robot.

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## Research

## Materials analysis

THE LOS ALAMOS research laboratory in the U.S. has developed a novel type of laser microscope which is able to produce sensitive analysis of blood, serum and other biomedical samples.

The microscope combines a well established diagnostic technique called atomic emission spectroscopy with laser technology to produce a sensitive trace of elements. When hit by a laser beam trace elements emit unique signatures of light called spectral lines.

The laboratory has already used the system to detect sodium and potassium in the product stream of a coal gasifier and investigations are being made to detect toxic substances in the atmosphere, though researchers believe the greatest potential is in biomechanical research.

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# SECTION III - INTERNATIONAL MARKETS

## FINANCIAL TIMES

Wednesday January 30 1985

UK unveils a framework  
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### WALL STREET

## Heads down awaiting funding plan

INVESTORS in New York financial markets kept their heads down yesterday, awaiting today's disclosure of the U.S. Treasury's funding requirements for the next quarter. Short-term rates rose sharply behind a jump in the federal funds rate and the stock market tried to rally quickly from a dull start, writes Terry Byland in New York.

The Dow Jones industrial average was up 14.79 at 1,292.62 at the close.

The Treasury is expected to announce this morning plans to auction around \$17.75bn in federal securities early next month. Maturities are likely to range through three, 10 and 30 years, and will test the strength of the bond market's recovery, on which the dramatic rise in stock prices has been based.

In the stock market turnover remained brisk and prices steadied as bonds rallied. Profit-taking in airline stocks brought a sharp dip in the Dow transportation average. Among the domestic carriers facing renewed price competition, United at \$45.00 lost \$1.00 and Delta, at \$43.00, dropped \$1.00. American fell \$1.00 to \$37.00.

IBM, announcing two new products, shaded \$4 to lower \$134 and Honeywell \$4 to \$61.

Commodity International tumbled \$1.10 to \$12.40 after disclosing a 94 per cent slump in profits in the December quarter. Apple Computer fell \$4 to \$30.

Speculative issues in centre stage included ABC, the television network, \$4 down at \$64.40, on the absence of a bidder. The collapse of the \$1bn bid proposal left Northwest Industries \$7 down at \$48.75. Philips Petroleum, with its restructuring plan now meeting opposition on Wall Street, dipped \$2 to \$48.75.

General Mills, however, bounded ahead by \$4 to \$54.40 in heavy turnover after brokerage analysts took a favourable view of plans to sell its toy and fashion subsidiaries.

AT&T again topped the active list, easing a further \$4 to \$204 as results were digested. GTE, the big private telephone operator, shed \$4 to \$43.00 on lower profits while Pacific Telesis, one of the new ex-Bell companies, was \$1 up at \$69.00, also on trading news.

Prominent in the reporting list was U.S. Steel, which eased \$3 to \$27.00 on its latest trading news.

In pharmaceuticals, Warner-Lambert lost \$1.00 to \$36.00 and Schering-Plough at \$37 shed \$1, both on profits news.

Also lower on trading announcements were Maytag, \$4 off at \$48.00, and Reichold Chemical \$4 off at \$34.00. Despite a dividend increase, American Brands dipped \$4 to \$64.00. Higher profits from Brush Wellman failed to satisfy the market, and the stock fell \$1 to \$38.

In a dull banking sector, BankAmerica gave up \$1 to \$19, with the market

wary of the \$37m write-off on mortgage securities-related business.

In the credit markets Federal Reserve policy remained a point of discussion. Mr Preston Martin, Fed vice-chairman, firmly quashed suggestions that he had changed his ground. "I certainly do not favour tighter credit," he said.

Federal funds jumped to 8 1/2 per cent, before the Fed gave a clearly sympathetic signal by arranging overnight system repurchases. While not a change in policy, the higher rate may have been a cautionary flag for the market ahead of the Treasury funding.

Bonds edged forward after recouping early falls. This week's lacklustre performance by bonds indicates worries that the federal funding could force yields higher. Dr Henry Kaufman, chief economist at Salomon Bros, reiterated his prediction that rates will climb by the end of the first quarter and that long bond yields could top 13 per cent by the year end - current yields are just over 11 per cent.

### TOKYO

## Speculatives fuel further advances

TRADING was brisk in Tokyo yesterday with the start of transactions for delivery in February, but investors sought mainly biotechnology issues and speculative leaders whose prices fluctuated rapidly, writes Shigeo Nishitaki of Jiji Press.

Judging from the highly speculative nature of the purchases, few observers think the upward trend will continue.

The Nikkei-Dow market average advanced 44.21 to 11,843.07. Volume swelled to 563m shares from Monday's 356m, but issues posting losses still outpaced those with gains by 379 to 329, with 185 issues unchanged.

Kuraray, the busiest issue with 35.74m shares changing hands, led the upsurge of biotechnology-related stocks. It added Y30 to another record high of Y1,160. Fujisawa Pharmaceutical jumped Y50 to Y1,320, also an all-time high, with the second heaviest trading of 26.28m shares. Yamanouchi Pharmaceutical finished at Y3,570, up Y30, and Daiichi Sankyo shot up Y230 to Y2,170. Mitsui Sugar, however, plunged Y45 to Y495 and Sankey dropped Y20 to Y1,140.

Among speculative issues Nippon Gakki exceeded Y2,000 for the first time, gaining Y180 to Y2,030. It was the third most active issue with 18.31m shares traded.

Daiichi Chuo Kisen Kaisha, a shipping group that will inaugurate a Shanghai route next month, drew investor interest closing Y25 higher at Y283. Isuzu, which had signed a contract to export 40,000 trucks to China, rose Y17 to Y381.

Non-ferrous metals also became popular for the first time in many days. Sumitomo Metal Mining soared Y70 to Y1,350 and Dowa Mining Y63 to Y570, on drilling of promising gold seams and business diversification.

Blue chips lost popularity quickly as Wall Street registered only a moderate overnight rise. Sony shed Y20 to Y3,980 on small-lot selling, and Matsushita Electric Industrial and Honda Motor fell Y30 to Y1,560 and Y1,420 respectively.

Daiwa Securities said the weekly moving average price of the 10 most active stocks reached Y907 on Monday, approaching the all-time high of Y909 scored in October. As market participants began to think high-priced issues had risen too far, more observers expected investor-buying to shift to issues priced at Y500 or less.

On the bond market, the benchmark 7.3 per cent government bonds maturing in December 1993 traded at a yield of 6.475 per cent compared with Monday's 6.460 per cent. The yield on 7.5 per cent government bonds due in July 1993, however, dropped from 6.640 per cent to 6.810 per cent.

### SINGAPORE

HEAVY short-covering fuelled a dramatic surge in Singapore with the Straits Times industrial index 21.74 higher at 816.38 after rising over 18 points on Monday. The last two sessions have thus erased most of the losses incurred in the past month.

Some diversion of British investment funds away from the currently weak Hong Kong market into Singapore was noted and helped to boost turnover to 21.5m shares, the highest for nearly six months.

Banks extended the gains made in the previous session with Malayan Banking adding 25 cents to S\$6.05. OCBC scored a 20-cent rise to S\$9.05 and DBS firmed 15 cents to S\$8.10 ex-all.

Singapore Press jumped 30 cents to S\$6.85, while Boustead rose 10 cents to S\$1.68 and Genting settled 15 cents higher at S\$5.30. Sme Darby's 7-cent advance took it to S\$1.80.

The property sector was again singled out for heavy buying with most leading shares higher. Singapore Land surged 25 cents to S\$3.16, a 45-cent rise in two days, while Selangor rose a further 12 cents to S\$2.18. City Development, at S\$1.21, ended the day 6 cents higher.

KL Kepong led a broadly firmer plantations sector with a 9-cent gain to S\$2.47.

### SWEDEN

## Attempts to force the insiders out

THE Swedish Finance Ministry is expected to introduce draft legislation soon which will sharpen the rules governing insider trading on the Stockholm bourse and establish criminal penalties, including prison terms, for offenders, writes David Brown in Stockholm.

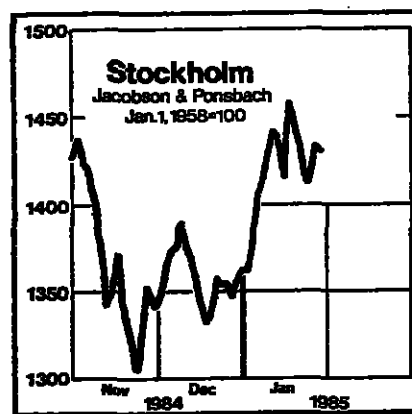
The move follows recent public controversy over several large deals where board members in major companies, including Skandia Insurance and the now-bankrupt Saleninvest shipping group, were able to avoid substantial losses by the early sale of personal shareholdings.

After five years of record growth the Stockholm bourse emerged last year as the eighth largest stock exchange in the world.

Legislation passed in 1971, however, remains limited to the requirement that board members and senior executives turn over information regarding shareholdings in their own company to the Bank Inspectorate.

Mr Sten Walberg, chief of the inspectorate, said: "If somebody makes an insider trade, he is simply required to report it. He might be embarrassed or ashamed but there is nothing that can be done to him."

In a confidential report to the Finance Ministry Mr Walberg detailed several



large insider trades that took place last autumn to serve as examples when formulating the legislation.

The Skandia and Salen cases were among those mentioned, as were moves in advance of the successful bid last autumn by Bofors, the armaments manufacturer, to take over Kemanobel, Sweden's largest chemicals group.

It is thought that the new law will restrict itself to the personal shareholdings of board members and top corporate executives. They will be forbidden to act on privileged information which is likely to affect the share price substantially, or in advance of takeover bids.

The law will not, however, forbid passing tips to outsiders and it is unclear whether lawyers, consultants and financial analysts are to be considered insiders.

According to Mr Benat Ryden, the newly-appointed chief of the stock exchange: "There is a danger that such a legislative solution will encourage people to do everything which is not explicitly forbidden, and will create the necessity of further steps."

The traditionally small number of actors on our market has not thus far called for detailed legislation. Its recent internationalisation and the entry of many new players has meant we have recently been perhaps more influenced by the practices of, say, New York or London.

"In the process, some participants have acted irresponsibly and hurt the credibility of the exchange among the public and politicians."

Mr Ryden is particularly critical of the web of corporate cross-ownerships that have been developed as a defence against hostile takeover bids.

The combination of Government exchange controls, a cash-rich corporate sector and the entry of a new breed of independent young financiers on to a traditionally closed market has resulted in a wave of major industrial takeovers that was particularly marked last year.

These changes have coincided with the relatively recent entry of private small savers on to the market. Today one in every four Swedes owns shares. These savers have had little chance to benefit from or defend their holdings against the massive shifts in the pattern of Swedish corporate ownership, says Mr Ryden. "The rules should be the same for all players."

Recognising a growing political sensitivity, the parliament moved last June to give the state majority control on the stock exchange board. The Government now appoints six of the 11 directors.

The Industry Department is understood to be on the verge of appointing a committee to investigate the impact of industrial cross-ownership. The committee will consider eliminating the current tax exemption enjoyed by companies on the dividends from holdings of 25 per cent or above in other companies.

"These rules were originally intended to encourage structural co-operation," says Mr Ryden. "Some people are now starting to ask why the taxpayer should help companies defend themselves against hostile takeovers or newcomers on the market."

The Government's forthcoming rules on insider trading do not herald a new era of regulation, but Mr Ryden believes the changes can be interpreted as a warning that the state is prepared to act if the business community does not show self-restraint.

Voluntary changes should also be considered in the current system of variously weighted share voting power and financial reporting practices, both of which have also been singled out for criticism.

The Stockholm market registered its first decline in four years in 1984, falling 12 per cent on the Veckans Affarer index following an almost threefold increase in the past five years.

New figures have been released by the central bank showing that the net export of Swedish shares fell dramatically from SKr 6.1bn in 1983 to SKr 1.5bn last year. The number of share issues outside Sweden declined from SKr 3.1bn to SKr 400m, accounting for more than half the difference.

New issue volume reached a record SKr 13.3bn - more than double the level for the entire decade starting in 1970. Favourable tax treatment meant that SKr 7bn was in the form of warrants and debentures, but stiffer rules are likely to make these instruments less interesting this year.

Moreover, a record 63 companies went public last year, but raised less money overall.

### LONDON

## Industrials take brunt of uncertainty

THE UNCERTAINTY over UK Government policy on sterling continued to weigh heavily on the London stock markets yesterday.

Leading shares again came under attack as credit charges in UK money markets rose. The key three-month interbank rate initially moved up to 14 1/2 per cent, or half a percentage point higher than clearing bank base rates, and revived fears that further increases in bank borrowing charges might be in the offing. Conflicting reports about the Opec conference on oil prices compounded the worries.

Blue chips retreated and the sharp falls among the constituents of the FT Ordinary index took the measure 25 points lower by mid-afternoon. A reaction in money market rates, however, which gave government stocks a much-needed boost, eased the tension and left the FT index only 18.7 lower at 861.2 by the close.

Chief prices changes, Page 24; Details, Page 27; Share information service, Pages 28-29

### HONG KONG

ENTHUSIASTIC profit-taking took its toll on a fragile Hong Kong, with the Hang Seng index falling 36.02 to close at 1,338.87 although turnover declined from the high levels set on Monday.

The failure of the market index to penetrate the 1,400 point barrier prompted institutions and local investors to sell. Many traders had expected Saturday's half-point cut in the colony's prime lending rate to underwrite a strong advance, but it failed to materialise.

Among the leaders, Cheung Kong fell 50 cents to HK\$13.10, China Light lost 40 cents to HK\$14.80 and Hongkong Bank shed 15 cents to HK\$5.55.

Elsewhere Hutchison Whampoa retreated 60 cents to HK\$19.90 although Jardine Matheson held its loss to 35 cents at HK\$8.85.

### AUSTRALIA

INDUSTRIALS were in the forefront of a Sydney rally that took the All-Ordinary index 3.1 higher to 758.1.

Institutional buying was evident across the board. Resource issues were favoured by some bargain hunters and takeover situations again provided an incentive to selective buying.

CSR, which announced plans last week to restructure its Delhi petroleum subsidiary and is now considered a possible takeover target, rose 12 cents to AS2.87.

Oil and gas issues were firm despite uncertainty about the Opec conference in Geneva on pricing levels. Santos added 8 cents to AS5.12.

Metals and golds were mixed, with Nugini Mining and Placer up 20 cents at AS10.30 and AS22.00 respectively. North Broken Hill slipped 13 cents to AS2.05 after its AS14.8m half-year pre-tax loss.

Property group Hooker traded higher to AS2.09 but closed steady at AS2.07 after speculation that Sunshine Australia might lift its partial offer for the group.

### CANADA

WEAKNESS developed in selected areas of Toronto, threatening to end the 11 consecutive days of gains. Golds put on one of the best performances, while base metal miners managed modest rises. Oil and gas issues were also marginally higher.

Among the actives, volume leader Daon put on 1 cent to C\$2.98, Inco moved C\$4 higher to C\$18.00, while Bank of Nova Scotia traded C\$1/4 up at C\$14.00.

More moderate trading in Montreal edged most sectors higher.

### EUROPE

## Frankfurt inhibited by rate concern

CONTINUED reaction to the sharp advances posted last week left many of the big European centres marking time again yesterday.

Frankfurt trading was also inhibited ahead of tomorrow's policymaking meeting of the Bundesbank council, with views divided over whether an increase in domestic interest rates can be expected.

Nonetheless, the mid-session calculation of the Commerzbank index showed a 5.7 advance to 1,147.2, although prices eased later to leave the market closing mixed.

Among banks, BHF fell another DM 6 to DM 283.50 in continued reaction to its planned one-for-eight rights issue at DM 195.

Deutsche Bank was DM 2 lower at DM 394.50 ahead of the announcement that Herr Alfred Herrhausen was to succeed the retiring management board spokesman, Herr Wilfried Guth.

In the steel sector, Thyssen slipped DM 1 to DM 99.90. Its steel unit reported an order worth DM 85m for a Chinese steel mill complex.

Klöckner-Werke added another 10 pf to DM 75 after a high of DM 75.80, on further consideration of the announcement that it is assured of state aid for its merger with Krupp and the Australian CRA group. Hoesch also added 10 pf to DM 103.50 after its DM 80m Czechoslovakian steel piping order.

In a mostly easier motor sector, Porsche added DM 7 to DM 1,060 as it announced price rises from Friday and plans for two models to be available in versions allowing for the fitting of emission-reducing catalytic converters.

The other car makers continued to suffer from reports of a sharp fall in domestic demand as a result of uncertainties over introduction of the converters.

Bond prices eased in quiet trading, with the outlook for interest rates dominating the market. The Bundesbank was the only active participant, selling DM 11.5m of paper, after purchases totalling DM 7.9m the previous day.

Profit-taking left Amsterdam easier, but above opening lows, with the ANP-CBS General index down 2.7 at 192.2.

The downturn which began on Monday amid UK selling gathered pace yesterday when U.S. buying interest failed to materialise.

Bond prices were lower mainly under foreign and professional selling pressure amid continued uncertainty over interest rates.

The European Court's ruling that French petrol price controls contravene European Community statutes, undermined oil issues in Paris and led the bourse lower. Uncertainty over the outcome of Opec's meeting in Geneva further unsettled the sector.

Brussels drifted lower in light trading. One of the few advances was recorded by zinc producer Vieille-Montagne, up Bfr 10 to Bfr 5,510 after reports that a group of Flemish shareholders might try to gain a seat on the board. Union Minière, which has a controlling minority in Vieille Montagne, declined to comment.

Bond prices edged higher in response to a half a percentage point cut in Treasury bill rates.

Against the lower trend, Zurich continued on its record setting path with the Swiss Bank industrial index up 1.00 at 412.20. Some profit-taking emerged, however, to limit gains.

Nestlé rose SwFr 90 to SwFr 6,080 in continued reaction to Monday's results. Insurance and banking shares joined in a Milan upturn in lively trading which saw strong demand.

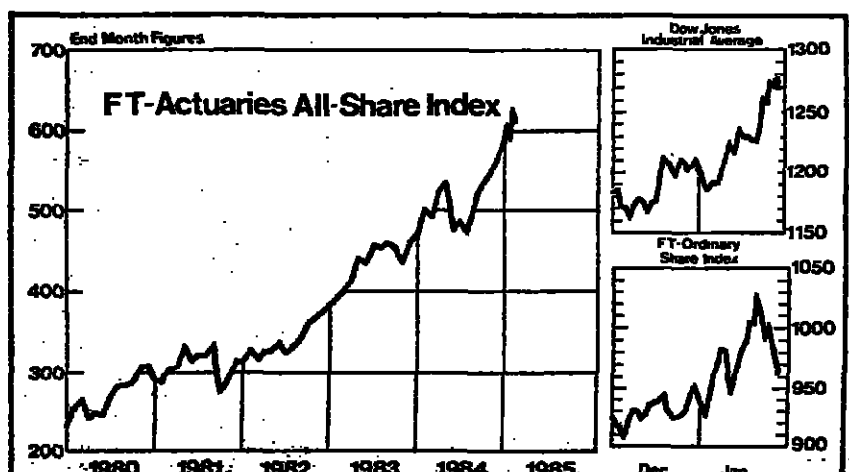
Madrid was also higher, but Stockholm turned lower with the sharpest losses seen in pharmaceuticals.

**SOUTH AFRICA**  
A FIRMER bias developed among Johannesburg gold shares late in the session, although many mining houses closed down on the day despite the higher bullion price.

The government move to force gold mine groups to receive half the proceeds of their overseas gold sales in rands and half in dollars, instead of all in dollars, took its toll.

Bufiles finished R2.50 off at R65.50, Driefontein was R1 cheaper at R47 and Free State Geduld at R43.50 was R1.50 down. Diamond share De Beers, however, added 5 cents to R8.55 and Rustenburg Platinum gained 20 cents to R16.50.

### KEY MARKET MONITORS



NEW YORK	Jan 29	Previous	Year ago
DJ Industrials	1,292.62	1,277.83	1,220.0
DJ Transport	614.37	607.17	567.15
DJ Utilities	148.90	148.39	132.65
S&P Composite	179.19	177.39	163.94

LONDON	Jan 29	Previous	Year ago
FT 100	861.2	877.9	831.4
FT-SE 100	1,249.3	1,265.8	1,075.9
FT-A All-shares	601.35	608.62	501.36
FT-A 500	657.33	665.55	535.61
FT Gold mines	448.1	440.3	543.8
FT-A Long gilt	11.03	10.99	10.14

TOKYO	Jan 29	Previous	Year ago
Nikkei-Dow	11,843.07	11,793.86	10,180.9
Tokyo SE	922.34	919.23	773.17

AUSTRALIA	Jan 29	Previous	Year ago
All Ord.	758.1	754.8	765.7
Metals & Mins.	432.2	429.2	517.3

AUSTRIA	Jan 29	Previous	Year ago
Credit Aktien	59.18	58.89	55.63

BELGIUM	Jan 29	Previous	Year ago
Belgian SE	2,110.16	2,123.22	-

CANADA	Jan 29	Previous	Year ago
Toronto	2,158.8	2,153.3	2,337.0
Metals & Mins.	2,892.9	2,866.0	2,504.3
Composite	129.57	129.31	121.78

DENMARK	Jan 29	Previous	Year ago
Copenhagen SE	170.16	171.37	221.43

FRANCE	Jan 29	Previous	Year ago
CAC Gen	195.6	196.0	170.1
Ind. Tandem	106.9	107.2	92.5

WEST GERMANY	Jan 29	Previous	Year ago
FAZ-Aktien	393.78	392.30	365.99
Commerzbank	1,147.2	1,141.5	1,082.2

HONG KONG	Jan 29	Previous	Year ago
Hang Seng	1,338.87	1,374.89	1,055.37

ITALY	Jan 29	Previous	Year ago
Banca Com.	258.88	258.07	219.55

NETHERLANDS	Jan 29	Previous	Year ago
ANP-CBS Gen	192.2	194.9	175.5
ANP-CBS ind	153.3	156.3	144.4

NORWAY	Jan 29	Previous	Year ago
Oslo SE	326.84	317.74	247.48

SINGAPORE	Jan 29	Previous	Year ago
Straits Times	816.38	794.64	1,051.57

SOUTH AFRICA	Jan 29	Previous	Year ago
Gold	914.7	925.4	808.0
Industrials	860.4	865.5	965.1

SPAIN	Jan 29	Previous	Year ago
Madrid SE	113.82	112.53	77.72

SWEDEN	Jan 29	Previous	Year ago
J & P	1,428.83	1,433.68	1,549.46

SWITZERLAND	Jan 29	Previous	Year ago
Swiss Bank Ind	41		



## NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

[illegible]

Continued on Page 22

کتابخانه



الحمد لله الذي جعل

Continued on Page 24

Low	Class Quote	Prev. Close	Ch'ge		12 Month		Stock	Div.	Yld.	P/-Sts
			High	Low	High	Low				
11-18	1/4	+1-16	59 1/2	50	Sm&B	2.80	4.5	10	2377	
34 1/2	3/8	+ 1/2	56 1/2	36 1/2	Smucker	.96	1.8	15	32	
5 1/2	5/8	+ 1/2	37 1/2	27	SnapOn	1.15	3.1	13	269	
1 1/2	1 1/2		36	27	Scept	1.85	5.6	6	629	

**Continued on Page 2**

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.



## WORLD STOCK MARKETS

AUSTRIA				GERMANY				NORWAY				AUSTRALIA (continued)				JAPAN (continued)				OVER-THE-COUNTER												LONDON											
Jan. 29	Price	±	or	Jan. 29	Price	±	or	Jan. 29	Price	±	or	Jan. 29	Price	±	or	Jan. 29	Price	±	or	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low				
Creditanstalt	229		+1	AEG-Telef.	110.7		-0.3	Bergen's Bank	170		-2	Gen Prop Trust	3.22		-0.01	MHI	237		+1	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low				
Genesee	360		+4	Allianz Vera	108.7		-1.3	Borgerland	370		+2.8	Harrod Trust	3.05		-0.01	Mitsui Co.	328		-2	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low				
Landesbank	418		+1	Presider Bank	191.2		-0.3	Christiana Bank	168		+1	Norwegian Energy	3.05		-0.01	Nippon Insulators	315		-2	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low				
Interimbank	328		+1	Bayer	178.5		-0.3	Den Norske Gd	199		+3	Norwegian Cement	3.05		-0.01	Nippon Denso	1,570		-10	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low				
Steiermark	354		+1	Bayern Hypo	319		-0.5	Kvaerner	187.5		+6.5	Norwegian Steel	3.05		-0.01	Nippon Denso	1,570		-10	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low				
Veitshaus	285		+10	Bayern Verel	355		-0.5	Norsk Data	414		-1.5	Norwegian Steel	3.05		-0.01	Nippon Denso	1,570		-10	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low				
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				Bayern Verel	355		-0.5	Norsk Data	414		-1.5	Norwegian Steel	3.05		-0.01	Nippon Denso	1,570		-10	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low				
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				Bayern Verel	355		-0.5	Norsk Data	414		-1.5	Norwegian Steel	3.05		-0.01	Nippon Denso	1,570		-10	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High	Low				
				Bayern Verel	355		-0.5	Norsk Data	414		-1.5	Norwegian Steel	3.05		-0.01	Nippon Denso	1,570		-10	Stock	Sales	High	Low	Stock	Sales	High	Low	Stock	Sales	High													

## OVER-THE-COUNTER

Nasdaq national market, 2:30pm prices

## LONDON

Chief price changes

(in pence unless otherwise indicated)

AISES

Tr. 12% 1985

Ex. 12% 1985

Bryson Oil &amp; Gas

Microgen

Rank Org

Western Min

FALLS

Allied Lyons

Avana

BTR

Babcock Int'l

Bechtel

Britannia Jr

Burton

Cable &amp; Wire

Home Farm Prod

ICI

P&amp;O Del

Powell Duffryn

Reed Int'l

Samuelson

Smiths Inds

Standard Chart

TI

Trusthouse Forte

Union Discount

Vickers

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## AMERICAN STOCK EXCHANGE CLOSING PRICES

Continued from Page 23

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## CANADA

Toronto Prices at 2:30pm

January 29

Sales Stock High Low Close Chg

Sales Stock High Low Close Chg

Sales Stock High Low Close Chg

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## UK NEWS — WHITE PAPER ON FINANCIAL SERVICES

## State framework will simplify investor protection

A STATUTORY framework to make investor protection laws more straightforward, more consistent, more comprehensive and more suited to present and future challenges facing the financial services industry is detailed in a White Paper.

In its proposals the Government is seeking to ensure that the financial service community in Britain is efficient in its provision of services to industry and commerce, private investors and the Government and is competitive, domestically and internationally. A system of regulation must inspire confidence by

ensuring that the financial services sector is, and is seen to be, a "clean" place to do business. The regulatory framework must be clear enough to guide, but not cramp, structural change in the industry, says the Government.

The Government favours a system of supervision of the financial service community in which those who provide financial services will police their markets. This self-regulatory system will operate within a statutory framework, and the Government expects to introduce legislation based on these

proposals in the 1985-86 parliamentary session.

In the 44-page White Paper the Government envisages the creation of two practitioner-based regulatory bodies — a "securities and investments board" and a "marketing of investments board", the latter responsible, in particular, for life insurance and unit trusts.

By John Moore, City Correspondent

## Private bodies will authorise businesses

RESPONSIBILITY for authorising investment businesses will be given to one or more private sector bodies whose members will be drawn from those who provide and those who use financial services.

"There is a wide measure of support for a regulatory system which can simply be described as self-regulation within a statutory framework," the White Paper says.

The Secretary for Trade and Industry will keep certain powers in relation to competition and international obligations, to ensure that the private sector regulatory bodies do not adopt rules or practices which conflict with these obligations. The trade secretary will ensure that the rules or practices of the bodies are not more restrictive than necessary for their prime purpose of protecting investors' interests and maintaining proper standards in the industry.

Explaining the reasons for the proposed structure for investor protection, the Government says the main advantages of a system of self-regulation within a statutory framework are as follows:

- It offers the best possibility of combining adequate investor protection with a competitive and innovative market.
- Regulation is more likely to be effective if there is significant practitioner involvement in devising the rules, enforcing them and in encouraging the observance of high standards of conduct.
- A private sector body able to make a greater flexibility in its operations than a body unable to change its rules other than by parliamentary legislation.
- Practitioners are best equipped to spot breaches of the rules and take swift and effective enforcement action.
- A private sector body could be established and brought to a high degree of readiness by the time the legislation receives royal assent, the effective date of the new statutory framework is likely to be in place, if parliament agrees, by the end of 1986. "Only when the legislation is in place can the trade secretary delegate formal power to the main private sector regulatory bodies or body."
- "In the meantime, however, it will clearly be necessary to develop the body or bodies to the stage which would allow the delegation of authority to them."
- "During this development, the financial services industry and its customers may conclude that there are advantages in a single body. The Government would be prepared to consider such a proposal. But the Government believes an effective system of regulation can be based on two bodies—the securities and investments board, covering the regulation of marketing of pre-packaged investments."
- "The Government recognises

the very important contributions made to self-regulation by many years by the Stock Exchange and, more recently, by bodies like the National Association of Security Dealers and Investment Managers and the Insurance Brokers' Registration Council. They welcome the formation of the Association of Futures Brokers and Dealers. These organisations will continue to play a major role in the new system. But each can cover only its own particular sector.

"Against the background of radical changes in the financial services industry and the increasing potential for abuse of confidence of interest the Government intend that equivalent standards of conduct should apply to the whole industry. This can be best achieved by the creation of the proposed bodies which will be primarily function-based."

In the legislation the Government will seek parliamentary approval for regulatory powers to be given to the Secretary of State. The Secretary of State would be enabled to delegate these powers to any body which appeared to him to meet criteria to be set out in legislation. In this way the bodies would be given their statutory backing.

Under the proposed criteria the body's indicated rules and practices relating to the authorisation of investment businesses—and suspension, variation and revocation of authorisation—must be fair and reasonable.

The body's proposed requirements relating to authorisation would have to ensure that those who are permitted to undertake investment business are and "remain fit and proper persons by virtue of their competence, probity and resources."

A body's proposed rules relating to the conduct of business will have to ensure that investors are afforded adequate protection. A regulatory body will have to show that it has procedures and resources enabling it to effectively monitor and enforce observance of its rules. The constitution of a regulatory body will have to give its governing council adequate independence from the sectional interests of those who are permitted to undertake investment business and "remain fit and proper persons by virtue of their competence, probity and resources."

The governing council of a regulatory body should include members drawn from users of financial services and other lay members as well as practitioners.

"To provide for a statutory power of authorisation and regulation to be given to a private sector body is unprecedented. The bodies will be enabled to make rules with the force of law and to ensure that businesses comply with them. But the practitioner-based system will not work without the maximum freedom from detailed government intervention or if every change in rules is subject to government or parliamentary approval."

## Combining accountability and a practitioner base

IN ORDER to combine the benefits of an effective practitioner-based system with accountability to the government and the public the following is proposed:

For the securities and investment board, the secretary of state will appoint the chairman with the agreement of the governor of the Bank of England. The governor will appoint other board members with the agreement of the secretary of state. For the marketing of investments board, the secretary of state will appoint the chairman and the other members in consultation with the industry.

The White Paper says there is a risk that regulation by practitioner-based organisations may degenerate into cosy clubs or cartels. Special provision will therefore be made to apply competition policy to securities

and investments board and self-regulatory organisations.

The secretary of state will keep the power to revoke or suspend the power of authorisation if they conflict with Britain's international obligations.

If at any time either board ceases to conform to the criteria in the statute the secretary of state will be able to withdraw its delegated authority. The regulatory function would then rest with the secretary until any further delegation was made.

The boards will be obliged by statute to report annually to the secretary of state who will lay their reports before parliament.

The board's decision on authorisation of investment business and on penalties for breaches of the rules can be referred to an independent tribunal appointed by the secretary of state.

## FOREIGN BANKS IN NEW YORK

The Banker in the March issue will be publishing its annual study on the expansion of New York as an international banking centre. The study will again include the full listing of every foreign banking operation—Branch, Agency, Representative Office or Subsidiary—active at the end of 1984. Location, management, staffing and status are detailed in full.

Banks, Financial Institutions and Suppliers to the Banking Industry wishing to demonstrate their commitment to New York's international banking expansion by advertising in this important study should contact:

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THE BANKER  
192 Clerkenwell Road, London EC1M 5SA  
Tel: 01-251 9321 Telex: 23700

## PROPOSALS FOR LEGISLATION ON FINANCIAL SERVICES

INVESTMENTS subject to the legislation will include, in addition to the securities covered by the existing Prevention of Fraud (Investments) Act 1958, the range of financial and commodity futures and options contracts and certain other products. These investments excluded are property which passes under the direct physical control of the investor.

Investment businesses subject to the legislation will include any business which effects transactions in investments, manages investments or offers advice about them. Newspapers, investment clubs, and companies issuing their own shares will be excluded from the legislation.

It will be an offence in law to carry on investment business described in the legislation unless practitioners are authorised.

The Secretary of State for

Trade and Industry is seeking in the legislative programme powers to allow regulatory bodies to authorise the operation of financial concerns and individuals carrying out investment business.

Two main practitioner-based regulatory bodies could be formed—a "securities and investments board" and a "marketing of investments board," covering in particular life assurance and unit trusts. The legislation will in no way prevent delegation to a single practitioner-based regulatory body.

There will be provision for the two boards to recognise self-regulatory organisations such as the Stock Exchange, the National Association of Security Dealers and Investment Managers, the Association of Futures Brokers and Dealers and the Insurance Brokers Registration Council for the authorisation of an

investment business.

The Secretary of State will appoint the chairman of the Securities and Investments Board with the agreement of the Governor of the Bank of England. The Governor will appoint the other board members with the agreement of the Secretary of State. For the marketing of investments board, the Secretary of State will appoint the chairman and other board members in consultation with the sectors of the financial services industry involved.

The current controls will be relaxed to allow more unit trusts to be made available to investment advisers who will have a duty to disclose "relevant information" including any material interest they have in a recommendation.

There will be a requirement to disclose comprehensive information about the way

pension scheme assets are invested.

Only authorised investment businesses will have a statutory right to issue advertisements or circulars likely to lead to the purchase or sale of investments.

Public offers of securities, primary or secondary, including offers made on take-over bids, will be subject to the same statutory regime.

The legislation will extend the insider dealing provisions of the Companies Act 1980 to cover all securities, including options and futures contracts based on them.

The regulatory board (or boards) and its recognised self-regulatory organisations will be responsible for enforcing the provisions of the legislation. The Department of Trade and Industry and the prosecution authorities will be responsible for enforcing the criminal law.

## Boards will utilise self-regulation

THE GOVERNMENT expects the two boards will wish to make maximum use of self-regulatory organisations. The boards will be able to recognise self-regulatory organisations and to supervise their rules and practices.

The boards will have to determine that the organisation is able to regulate the admission and conduct of its members, and that its rules provide a standard at least as high as those of the boards themselves.

Thus authorisation for an "investment business" could be obtained either through membership of a self-regulatory organisation recognised by a board or directly from a board. Those setting up the boards will have to work out how they can operate most swiftly and effectively. They may conclude that this depends on the boards having the right to apply to the courts to secure evidence and witnesses. If so, the Government will consider provisions to this end.

Any dispute about authorisation decisions or about penalties for breaches of the rules will be determined by the independent tribunal. Its three members will be appointed by the secretary of state and will be financed out of public funds. The chairman will be a lawyer, and one other member will be from the industry.

The tribunal's decision will be published, and an appeal could be on facts or law. The tribunal would be able to substitute its own judgment for the board's. The powers of the tribunal will be similar to those of the courts to require attendance and papers.

The development of integrated financial services groups, providing a range of services, means that many of them are subject to different supervisory requirements.

The White Paper says that under this new arrangements some of their business activities will fall within the ambit of the securities and investments board and others within the ambit of the marketing of investments board. Some groups—or members of the same group—already belong to more than one self-regulatory organisation.

In addition, many financial conglomerates have a banking or insurance arm subject to the supervision of the Bank of England under the Banking Act and an insurance arm subject to regulation by the Department of Trade and Industry under the Insurance Companies Act 1982. Some will also be supervised by the authorities in other countries where they do business.

As a consequence, the Government recognises that regulatory responsibilities will overlap. "It is the Government's wish that the need for multiple authorisation of investment business should be kept to a minimum. A member business of a recognised organisation need apply for board authorisation only in respect of types of investment business not regulated by any recognised organisation of which it is already a member."

The Government says it is important that co-operation continues between the various regulatory bodies. It is to propose arrangements to enable information to be transferred between regulators, subject to safeguards.

The boards will be financed by investment businesses and would not call on public funds. The right of the boards to finance themselves in this way will be confirmed in statute.

## Safeguards provided

THE RAPID increase in the number of firms engaging in more than one type of investment business and the blurring of demarcation lines—for example, between stockbrokers and stockjobbers—have made it more important than ever that investors are adequately protected against abuses arising from conflicts of interest within investment businesses, says the White Paper.

It has been suggested that "Chinese Walls" offer this protection. The Licensed Dealers (Conduct of Business) Rules 1983 define "Chinese Walls" as follows: "A Chinese Wall means an established arrangement whereby information known to persons in one part of a business is not available (directly or indirectly) to those involved in another part of the business, and it is accepted that in each of the parts of the business so divided the information is not available to any other such part or any person in any such part of the business may have in the matter."

The White Paper says: "The Government feels that the total reliance can be placed on Chinese Walls because they restrict flows of information and not the conflicts of interest themselves. The legislation will require an investment business holding funds on behalf of a client to place them in a segregated trust account. Client money will not be used for the investment business. This will not apply where client money is held by a bank, licensed deposit taker or building society because protection in these cases is given by the Banking Act and the Building Societies Act. Investment firms should also make arrangements to safeguard documents of title held on behalf of clients. Compensation should be available for investors in the event of loss arising from investment business fraud, negligence, or failure to comply with requirements for the protection of clients' assets."

It would be for the relevant board to establish or approve the appropriate method of compensation. The legislation will impose a duty on it to see that such arrangements are made, and confer the necessary powers. In addition, investment and dealing recommendations should be adequate and reasonable, having regard to the nature of the investment and the circumstances of the client. Terms of business deals should be disclosed to customers. Proper records should be kept by investment businesses and arrangements should be made by the regulatory boards for the orderly conduct of business by authorised companies.

The principles outlined in the White Paper governing the conduct of investment business will be set out in the legislation and rules based on them will be drawn up by the boards and the self-regulatory organisations which they recognise. "Keeping these rules up to date and enforcing them will be one of the prime functions of the boards."

Where an investment business acts as an agent for a client, the general rules of agency and the consequent fiduciary duties apply to the business. The business must not put itself in a position where its duties to the client conflict with its own interests or with its duties to others unless the circumstances

have been explained to, and accepted by, the client.

The business must account to the client for any secret profit, whether or not that profit is made at the expense of the client.

Specific conflicts of interest must be resolved in the following way:

- A "best execution" principle, whereby all instructions from clients must be executed to the client's best advantage. Thus no investment should deal with a client's funds in the volume or price unless this results in better terms for the client.
- A "subordination of interest" requirement, so that the client's interests are paramount. Thus clients should be given priority in the execution of orders when an investment business is also dealing on its own account, and there should be no "churning" of a managed portfolio to generate commission income. Transactions should not be carried out except at the price, in the volume and at the time indicated, and in accordance with the wishes of the client where these have been expressed.

Where a business can deal with a client either as principal or as agent, it must be made aware of the capacity in which it is acting. The legislation will require an investment business holding funds on behalf of a client to place them in a segregated trust account. Client money will not be used for the investment business. This will not apply where client money is held by a bank, licensed deposit taker or building society because protection in these cases is given by the Banking Act and the Building Societies Act. Investment firms should also make arrangements to safeguard documents of title held on behalf of clients. Compensation should be available for investors in the event of loss arising from investment business fraud, negligence, or failure to comply with requirements for the protection of clients' assets."

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## Provisions on insider dealing

THE LEGISLATION will extend the insider dealing provisions of the Companies Act 1980 to cover all securities, including options and futures contracts.

Responsibility for conducting investigations into alleged cases of insider dealing will rest with the market authorities and the Department of Trade and Industry. The Government considers it necessary to strengthen the investigators' hand by providing for them to be equipped with powers similar to those vested in an inspector appointed under section 165 of the Companies Act 1948. This would enable them to require any person who had bought or sold securities to disclose—for the purpose of Part V of the Companies Act 1980—details of a transaction.

Public offers of securities, primary or secondary, including offers made on take-over bids, will be subject to the same statutory regime. All offers to the public will have to comply with requirements regarding their contents, unless specifically exempted. The minimum contents of prospectuses will be set out in regulations made by the Secretary of State.

If the securities market felt it would be helpful, the Government would be willing to consider providing statutory backing for the City Panel on Takeovers and Mergers.

PENSIONS THERE WILL be a requirement to disclose comprehensive information about the way pension scheme assets are invested. Any investment manager or adviser involved in the management of pension schemes as a business—other than simply as an employee—will require authorisation.

ONLY AUTHORISED investment businesses will have a statutory right to issue advertisements or circulars likely to lead to the sale or purchase of investments. "Advertisements and circulars" will be defined to include all media. "Cold-calling" will not be banned for the sale of investment products where a cooling off period can be provided.

SOLICITORS THE GOVERNMENT propose that the Secretary of State should be able to exempt from the requirement to obtain authorisation the members of a professional body which is already recognised for the purposes of other statutes. The Secretary will only do this if satisfied that the professional body in question maintains and enforces professional standards of conduct offering equivalent safeguards for the investor. This exemption will apply only as long as the investment business of the firm is not a significant part of its activities. The likely candidates for exemption are solicitors, members of the four accountancy bodies recognised for the purpose of auditing company accounts and actuaries.

TIPSHEETS THERE HAVE been cases of abuse where share tipsters in tip sheets, publications which recommend particular share transactions, have taken advantage of recommendations in advance of their publication to subscribers.

The Government propose that tip sheets should be treated as investment circulars. Their publishers will be required to be authorised whether or not they offer dealing facilities. Bona fide newspapers will not require authorisation.



Mr Norman Tebbit, Secretary of State for Trade and Industry, presents the Government's proposals

## Marketing of investments board to be established

THE marketing of investments board will be able to recognise other self-regulatory organisations in its field when it receives its delegated powers from the Secretary of State. In turn these organisations, once recognised, would be able to admit and regulate their members, with the ultimate sanction of expulsion.

The White Paper says: "The Insurance Brokers Registration Council (IBRC)—as an existing statutory self-regulatory body—is in special position. If the IBRC is to play its part in the new self-regulatory structure, changes will have to be made to its constitution and rules."

"The Government will propose amendments to the Insurance Brokers (Registration) Act 1977 to fit the IBRC for its new role while retaining as far as possible the existing structure of broker self-regulation for non-life insurance and the exclusive right to the title 'insurance broker' for those registered with the IBRC."

The Government considers that customers should be in a position to assess the degree to which independent intermediaries purporting to offer impartial advice to the customer may be influenced by commissions, including those known as overrides, and other indirect payments and benefits in kind. Rigorous disclosure requirements should be laid down to

provide, at point of sale, information about these matters to purchasers of life assurance and units in unit trusts.

The proposed legislation will provide that one of two routes should be followed. The first is that specific details be stated of the amount and nature of the commission to be paid in relation to the transaction in question, including subsequent renewals.

Alternatively, there could be an undertaking that the commission is within the limits prescribed by voluntary agreement within the industry. These limits could be set out by the insurance company in a notice provided to the purchaser, supplemented by fuller information on the limits in a leaflet made available to the purchaser at point of sale.

The Government intends that it should be an offence for anybody to promote in the UK the sale of any long-term life assurance contract to an insurer not authorised to carry on such business by the authorities of a European Community member state.

Further it would be an offence for anyone to publish or circulate in the UK any advertisement for the contracts of such an insurer.

In either case exceptions could apply when specifically permitted by regulations made by the Secretary of State.

## Reform of unit trusts legislation proposed

REFORMS in the regulation of the unit trust industry are planned to enhance the range of schemes available without doing away with essential safeguards. "Unit trusts are at present over-regulated in some respects," the White Paper says.

The legislation will provide for two categories of unit trusts: authorised unit trusts, which can be promoted to the public generally; and restricted unit trusts which will have to be promoted more selectively.

Unit trusts which their promoters intend offering to the public will need to be authorised, as now. The Government envisages delegating this task to the securities and investments board in due course.

Existing company law makes it impracticable to form variable capital companies in the UK, although in many countries they are the standard

form of collective investment scheme. The Government proposes to amend the law to allow such open-ended investment companies to be formed in the UK. "This will enable the UK unit trust industry to compete on the same basis as its foreign counterparts."

Existing law forbids the promotion of unauthorised unit trusts, except to professionals. The Government proposes to end this ban, and to provide for a new category of "restricted unit trusts."

This category of unit trusts will be restricted in two respects. First, the prospectus may be sent initially only to other authorised investment businesses or to the manager's own clients. Second, authorised businesses will be required to take reasonable care to establish that a client understands and can afford to take the higher risks involved in a restricted scheme.

## Policing and prosecution

THE REGULATORY boards and their recognised self-regulatory organisation will be responsible for enforcing their respective rules. The Department of Trade and Industry and the prosecution authorities will be responsible for enforcing the criminal law.

To facilitate rigorous enforcement, the Government proposes to empower the Department of Trade and Industry to inspect the books and papers of authorised businesses, and of any person, company, partnership or sole trader suspected of carrying on investment business without being authorised. This would be analogous to similar powers in other legislation.

Co-ordination between the boards, the self-regulatory organisation which they recognise

and the Department of Trade and Industry would be essential for enforcement of the criminal law to be effective. "In particular, evidence of possible criminal activity uncovered by the boards and the self-regulatory organisations will be passed to the department and the prosecution authorities," the White Paper says.

To facilitate the enforcement of investor rights under Civil law the Government proposes powers for the Secretary of State, which he could delegate to the boards, to seek injunctions and "disengagement orders" against businesses in breach of the criminal law, the rules of boards or those of recognised self-regulatory organisations.

Financial Services in the UK: a new framework for investor protection, Cmnd 4390, HMSO, 24.95.

APR 1986



## LONDON STOCK EXCHANGE

## MARKET REPORT

## Gilt-edged recovery contrasts with another fall in blue chip industrials

## Account Dealing Dates

\*First Declared Last Account  
Dealings from Dealings Day  
Jan 14 Jan 24 Jan 25 Feb 4  
Jan 28 Feb 7 Feb 8 Feb 18  
Feb 21 Feb 22 Feb 23 Mar 4  
\*New firms' dealings may take  
place from 9.30 am two business days  
earlier.

The uncertainty aroused by Government policies towards sterling, which so far, has shown little appreciable response to sharply higher interest rates continued to trouble London stock markets. For the second day running, leading shares came under attack as credit charges in UK money markets rose. The key three month interbank rate initially moved up to 14 1/2 per cent, or 1 percentage point higher than clearing bank base rates, and revived fears that still further increases in bank borrowing charges may be necessary in order to sustain sterling. Connecting reports on the current account compound the worries.

Blue chip industrials retreated across the board with jobbers meeting a rush of selling from small investors anxious to realise profits. By mid-afternoon the FT Ordinary share index was down 25.4 and seemed set for further deterioration. A subsequent reaction in money market rates, which gave Government stocks a much-needed boost, eased the session and brought leading equities away from the session's lowest. The FT index finally closed 16.7 down at 9612.

Consumer shares led the way down being affected by dearer money trends and despite the late rally, still settled with falls ranging to 20. Late news that yesterday's talks about a new currency base lending rates up to gilt-edged securities. Shorter maturities were hard hit and sustained immediate falls. Some selected responded and recovered, but generally regained confidence, however, and later in the day medium-life stocks came into their own. Selected shares responded sharply to revived persistent demand and closed 11 points up on the day. Longer-dated Gilts managed gains extending to 4, while the 10 year gilt actually achieved net rises of 10 or so.

## Barclays easier

Disappointing annual results from a South African subsidiary upset Barclays, which fell 17 to 609p, and also provoked a sharp decline in Standard Chartered, off 15 to 495p. Midland were again anchored by rights issue possibilities and lost 5 more at 196p, but recovered from 545p to finish unaltered at 550p. NatWest ended only a couple of pence off at 645p, after 645p. Discount

Houses gave ground with Union 20 lower at 690p ahead of today's preliminary figures. Later Allen fell 15 to 465p. Prudential declined 9 to 186p among life insurers. Lloyd's provided one of the few firm sectors, boosted by dollar earnings potential. Stewart Wrigglesworth rose 7 to 617p and Berek Ryeport 19 further to 414p. Willis Faber, additionally aided by Press comment, closed 21 better at 668p, after 665p. Life insurers drifted easier with Legal and General closing 8 down 545p and Prudential similarly lower at 515p.

In first-time dealings, Pacific Assets Trust attracted a reasonable two-way business and touched 79p prior to closing at 77p.

A fresh bout of selling took toll on Breweries. Although closing levels were above the day's lowest, Bass still sustained a fall to 214p, but while Allied Lyons finished 7 lower at 173p, after 170p, Scottish and Newcastle slipped 5 to 135p and Whitbread A to 6 to 299p. Elsewhere, Distillers fell 7 to 295p.

Building issues sustained fresh falls in the face of some fairly persistent small selling, but the leaders managed a minor rally late in the session. Blue Circle, the subject of American buying last week, remained on offer and shed 10 for a two-day fall to 465p. Redland gave up 7 to 276p and Tarmac fell 8 to 468p. Housebuilders still ground on fears about another increase in mortgage rates.

After falling to 813p, ICI picked up to 818p before closing at 818p, after 818p.

## Stores sold again

Leading retailers ran into sustained selling brought on by fears that a rise in mortgage rates would curtail consumer spending. Falls ranged into double-figures for the second day running with Gieves 8 down at 69p. Woolworths fell 10 to 583p and Barton lost 21 to 440p, while Habitat gave up 6 to 244p. British Home gave up 5 at 244p, after 249p. Debenhams recovered from 545p to finish unaltered at 550p. NatWest ended only a couple of pence off at 645p, after 645p. Discount

## FINANCIAL TIMES STOCK INDICES

	Jan 29	Jan 28	Jan 27	Jan 26	Jan 25	Jan 24	Jan 23	Jan 22	Jan 21	Jan 20	Jan 19	Jan 18	Jan 17	Jan 16	Jan 15	Jan 14	Jan 13	Jan 12	Jan 11	Jan 10	Jan 9	Jan 8	Jan 7	Jan 6	Jan 5	Jan 4	Jan 3	Jan 2	Jan 1	Dec 31	Dec 30	Dec 29	Dec 28	Dec 27	Dec 26	Dec 25	Dec 24	Dec 23	Dec 22	Dec 21	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12	Dec 11	Dec 10	Dec 9	Dec 8	Dec 7	Dec 6	Dec 5	Dec 4	Dec 3	Dec 2	Dec 1	Nov 30	Nov 29	Nov 28	Nov 27	Nov 26	Nov 25	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 7	Nov 6	Nov 5	Nov 4	Nov 3	Nov 2	Nov 1	Oct 31	Oct 30	Oct 29	Oct 28	Oct 27	Oct 26	Oct 25	Oct 24	Oct 23	Oct 22	Oct 21	Oct 20	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	Oct 13	Oct 12	Oct 11	Oct 10	Oct 9	Oct 8	Oct 7	Oct 6	Oct 5	Oct 4	Oct 3	Oct 2	Oct 1	Sep 30	Sep 29	Sep 28	Sep 27	Sep 26	Sep 25	Sep 24	Sep 23	Sep 22	Sep 21	Sep 20	Sep 19	Sep 18	Sep 17	Sep 16	Sep 15	Sep 14	Sep 13	Sep 12	Sep 11	Sep 10	Sep 9	Sep 8	Sep 7	Sep 6	Sep 5	Sep 4	Sep 3	Sep 2	Sep 1	Aug 31	Aug 30	Aug 29	Aug 28	Aug 27	Aug 26	Aug 25	Aug 24	Aug 23	Aug 22	Aug 21	Aug 20	Aug 19	Aug 18	Aug 17	Aug 16	Aug 15	Aug 14	Aug 13	Aug 12	Aug 11	Aug 10	Aug 9	Aug 8	Aug 7	Aug 6	Aug 5	Aug 4	Aug 3	Aug 2	Aug 1	Jul 31	Jul 30	Jul 29	Jul 28	Jul 27	Jul 26	Jul 25	Jul 24	Jul 23	Jul 22	Jul 21	Jul 20	Jul 19	Jul 18	Jul 17	Jul 16	Jul 15	Jul 14	Jul 13	Jul 12	Jul 11	Jul 10	Jul 9	Jul 8	Jul 7	Jul 6	Jul 5	Jul 4	Jul 3	Jul 2	Jul 1	Jun 30	Jun 29	Jun 28	Jun 27	Jun 26	Jun 25	Jun 24	Jun 23	Jun 22	Jun 21	Jun 20	Jun 19	Jun 18	Jun 17	Jun 16	Jun 15	Jun 14	Jun 13	Jun 12	Jun 11	Jun 10	Jun 9	Jun 8	Jun 7	Jun 6	Jun 5	Jun 4	Jun 3	Jun 2	Jun 1	May 31	May 30	May 29	May 28	May 27	May 26	May 25	May 24	May 23	May 22	May 21	May 20	May 19	May 18	May 17	May 16	May 15	May 14	May 13	May 12	May 11	May 10	May 9	May 8	May 7	May 6	May 5	May 4	May 3	May 2	May 1	Apr 30	Apr 29	Apr 28	Apr 27	Apr 26	Apr 25	Apr 24	Apr 23	Apr 22	Apr 21	Apr 20	Apr 19	Apr 18	Apr 17	Apr 16	Apr 15	Apr 14	Apr 13	Apr 12	Apr 11	Apr 10	Apr 9	Apr 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15	Jun 14	Jun 13	Jun 12	Jun 11	Jun 10	Jun 9	Jun 8	Jun 7	Jun 6	Jun 5	Jun 4	Jun 3	Jun 2	Jun 1	May 31	May 30	May 29	May 28	May 27	May 26	May 25	May 24	May 23	May 22	May 21	May 20	May 19	May 18	May 17	May 16	May 15	May 14	May 13	May 12	May 11	May 10	May 9	May 8	May 7	May 6	May 5	May 4	May 3	May 2	May 1	Apr 30	Apr 29	Apr 28	Apr 27	Apr 26	Apr 25	Apr 24	Apr 23	Apr 22	Apr 21	Apr 20	Apr 19	Apr 18	Apr 17	Apr 16	Apr 15	Apr 14	Apr 13	Apr 12	Apr 11	Apr 10	Apr 9	Apr 8	Apr 7	Apr 6	Apr 5	Apr 4	Apr 3	Apr 2	Apr 1	Mar 31	Mar 30	Mar 29	Mar 28	Mar 27	Mar 26	Mar 25	Mar 24	Mar 23	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10	Mar 9	Mar 8	Mar 7	Mar 6	Mar 5	Mar 4	Mar 3	Mar 2	Mar 1	Feb 29	Feb 28	Feb 27	Feb 26	Feb 25	Feb 24	Feb 23	Feb 22	Feb 21	Feb 20	Feb 19	Feb 18	Feb 17	Feb 16	Feb 15	Feb 14	Feb 13	Feb 12	Feb 11	Feb 10	Feb 9	Feb 8	Feb 7	Feb 6	Feb 5	Feb 4	Feb 3	Feb 2	Feb 1	Jan 31	Jan 30	Jan 29	Jan 28	Jan 27	Jan 26	Jan 25	Jan 24	Jan 23	Jan 22	Jan 21	Jan 20	Jan 19	Jan 18	Jan 17	Jan 16	Jan 15	Jan 14	Jan 13	Jan 12	Jan 11	Jan 10	Jan 9	Jan 8	Jan 7	Jan 6	Jan 5	Jan 4	Jan 3	Jan 2	Jan 1	Dec 31	Dec 30	Dec 29	Dec 28	Dec 27	Dec 26	Dec 25	Dec 24	Dec 23	Dec 22	Dec 21	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12	Dec 11	Dec 10	Dec 9	Dec 8	Dec 7	Dec 6	Dec 5	Dec 4	Dec 3	Dec 2	Dec 1	Nov 30	Nov 29	Nov 28	Nov 27	Nov 26	Nov 25	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 7	Nov 6	Nov 5	Nov 4	Nov 3	Nov 2	Nov 1	Oct 31	Oct 30	Oct 29	Oct 28	Oct 27	Oct 26	Oct 25	Oct 24	Oct 23	Oct 22	Oct 21	Oct 20	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Oct 14	Oct 13	Oct 12	Oct 11	Oct 10	Oct 9	Oct 8	Oct 7	Oct 6	Oct 5	Oct 4	Oct 3	Oct 2	Oct 1	Sep 30	Sep 29	Sep 28	Sep 27	Sep 26	Sep 25	Sep 24	Sep 23	Sep 22	Sep 21	Sep 20	Sep 19	Sep 18	Sep 17	Sep 16	Sep 15	Sep 14	Sep 13	Sep 12	Sep 11	Sep 10	Sep 9	Sep 8	Sep 7	Sep 6	Sep 5	Sep 4	Sep 3	Sep 2	Sep 1	Aug 31	Aug 30	Aug 29	Aug 28	Aug 27	Aug 26	Aug 25	Aug 24	Aug 23	Aug 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26	Mar 25	Mar 24	Mar 23	Mar 22	Mar 21	Mar 20	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11	Mar 10	Mar 9	Mar 8	Mar 7	Mar 6	Mar 5	Mar 4	Mar 3	Mar 2	Mar 1	Feb 29	Feb 28	Feb 27	Feb 26	Feb 25	Feb 24	Feb 23	Feb 22	Feb 21	Feb 20	Feb 19	Feb 18	Feb 17	Feb 16	Feb 15	Feb 14	Feb 13	Feb 12	Feb 11	Feb 10	Feb 9	Feb 8	Feb 7	Feb 6	Feb 5	Feb 4	Feb 3	Feb 2	Feb 1	Jan 31	Jan 30	Jan 29	Jan 28	Jan 27	Jan 26	Jan 25	Jan 24	Jan 23	Jan 22	Jan 21	Jan 20	Jan 19	Jan 18	Jan 17	Jan 16	Jan 15	Jan 14	Jan 13	Jan 12	Jan 11	Jan 10	Jan 9	Jan 8	Jan 7	Jan 6	Jan 5	Jan 4	Jan 3	Jan 2	Jan 1	Dec 31	Dec 30	Dec 29	Dec 28	Dec 27	Dec 26	Dec 25	Dec 24	Dec 23	Dec 22	Dec 21	Dec 20	Dec 19	Dec 18	Dec 17	Dec 16	Dec 15	Dec 14	Dec 13	Dec 12	Dec 11	Dec 10	Dec 9	Dec 8	Dec 7	Dec 6	Dec 5	Dec 4	Dec 3	Dec 2	Dec 1	Nov 30	Nov 29	Nov 28	Nov 27	Nov 26	Nov 25	Nov 24	Nov 23	Nov 22	Nov 21	Nov 20	Nov 19	Nov 18	Nov 17	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 7	Nov 6	Nov 5	Nov 4	Nov 3	Nov 2	Nov 1	Oct 31	Oct 30	Oct 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## IND GAS

is available to every Company dealt in on Stock  
throughout the United Kingdom for a fee of £800 per  
annum for each security.



**FT UNIT TRUST INFORMATION SERVICE**[illegible][illegible]

A 10x10 crossword puzzle grid. The grid consists of white squares for letters and black squares for empty space. The numbers 1 through 29 are placed in the top-left corner of their respective starting squares. The grid is as follows:

1	2	3	4	5	6	7	8		
9									
10				11					
12					13				
14			15	16	17		18		
19						20			21
22		23		24	25	26			
27						28			
29									

**9** Classic sort of minor dance (8)      being a pet (5)

**15** Public notice linden that is not heavy (9)

**17** Does he call the tune on the shore? (9)

**18** Mixed tern pairs happen seasonally (9)

**19** Firm whose polostrons (7)

**21** Does one issue bank-stamps? (6)

**23** Firms combine with a chocolate manufacturer (5)

**24** Frog, potentially, going to court (5)

**26** This teacher falls short of

[illegible][illegible][illegible]



## INSURANCE, OVERSEAS & MONEY FUNDS

[illegible]







## CURRENCIES, MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

## Pound fails to convince

Sterling showed a slight improvement on the foreign exchange market yesterday, but dealers continued to find the pound's performance unconvincing and were left wondering at the wisdom of the recent very large rise in London interest rates without any strong accompanying intervention to support the currency. Oil remained the overwhelming factor governing sterling's fortunes, with all attention focused on the meeting of ministers from the Organisation of Petroleum Exporting Countries in Geneva.

Against this background, and fears of a possible cut in the Arabian light market price from \$20 a barrel, sterling opened weakly, but then held steady and after a modest rally, finished little different from opening levels. The exchange rate index began 0.1 higher at 70.9, but after touching a peak of 70.9 at 10.00 am retreated to 70.7 at 11.00 am, and closed at 70.6, a rise of 0.1 on the day.

Sterling gained 35 points to close at \$1.140-1.141, after beginning the day at about the same level. The pound touched a peak of \$1.1205, and there were suggestions in the market of possible Bank of England inter-

vention when sterling broke through \$1.12, but the pound eventually slipped back and shortly after London closed touched \$1.11 in New York. Sterling performed better against other currencies, rising to DM 3.5425 from DM 3.5175; FFR 10.825 from FFR 10.7825; Sfr 2.0725 from Sfr 2.0575; and ¥238.75 from ¥232.50.

The dollar was quiet for most of the day, as attention remained fixed on the pound, but the U.S. currency gained renewed support in late European trading. Demand for the dollar was believed to originate from the futures market in Chicago. The dollar rose to DM 3.1760 from DM 3.1670; FFR 9.7025 from FFR 9.68; Sfr 2.6600 from

## EMS EUROPEAN CURRENCY UNIT RATES

Currency	Unit	% change from Jan 29	% change from Jan 28	% change from Jan 27
Belgian Franc	44.5000	-2.36	-1.54	-1.54
Dutch Guilder	2.2037	-0.36	-0.36	-0.36
French Franc	6.5596	-0.36	-0.36	-0.36
German Mark	2.3636	-0.36	-0.36	-0.36
Italian Lira	1.366	-0.36	-0.36	-0.36
Spanish Peseta	166.6667	-0.36	-0.36	-0.36
Swiss Franc	2.0575	-0.36	-0.36	-0.36
UK Pound	1.0000	-0.36	-0.36	-0.36

Changes are for £1, therefore positive change denotes a weaker currency. Adjustment calculated by Financial Times.

## POUND SPOT-FORWARD AGAINST POUND

Jan 29	Days ahead	Close	One month	% Three months	% Six months
U.S.	1.1405-1.1406	1.1405-1.1406	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm
Canada	1.4755-1.4756	1.4755-1.4756	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm
Norway	1.25-1.25	1.25-1.25	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm
Denmark	1.25-1.25	1.25-1.25	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm
Sweden	1.25-1.25	1.25-1.25	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm
Portugal	1.25-1.25	1.25-1.25	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm
Spain	1.25-1.25	1.25-1.25	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm
Italy	1.25-1.25	1.25-1.25	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm
Japan	1.25-1.25	1.25-1.25	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm
Australia	1.25-1.25	1.25-1.25	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm
South Africa	1.25-1.25	1.25-1.25	0.55-0.56 pm	0.55-0.56 pm	0.55-0.56 pm

Belgian rate is for convertible franc. Financial franc 70.95-70.96. Six-month forward dollar 2.25-2.15 pm. 12-month 3.20-3.00 pm.

## OTHER CURRENCIES

Jan. 29	Jan. 28	Jan. 27	Jan. 26	Jan. 25	Jan. 24
Argentina Peso	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
Australian Dollar	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
Brazil Cruzeiro	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
Canadian Dollar	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
Chinese Yuan	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
Deutsche Mark	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
French Franc	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
Italian Lira	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
Japanese Yen	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
South African Rand	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
U.S. Dollar	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578

\* Selling rate.

## EXCHANGE CROSS RATES

Jan. 29	Jan. 28	Jan. 27	Jan. 26	Jan. 25	Jan. 24
Pound Sterling	1.0000	1.0000	1.0000	1.0000	1.0000
U.S. Dollar	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
Deutsche Mark	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
French Franc	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
Italian Lira	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
Japanese Yen	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
South African Rand	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578
U.S. Dollar	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578	1.4577-1.4578

## EURO-CURRENCY INTEREST RATES (Market closing rates)

Jan. 29	Jan. 28	Jan. 27	Jan. 26	Jan. 25	Jan. 24
3 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
6 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
9 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
12 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
15 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
18 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
21 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
24 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
27 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
30 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4

Asian \$ (closing rate in Singapore): Short-term 8 1/4-9 1/4 per cent; seven days 8 1/4-9 1/4 per cent; one month 8 1/4-9 1/4 per cent; three months 8 1/4-9 1/4 per cent; six months 8 1/4-9 1/4 per cent; one year 8 1/4-9 1/4 per cent. Long-term Eurodollar: two years 10 1/4-11 1/4 per cent; three years 10 1/4-11 1/4 per cent; four years 10 1/4-11 1/4 per cent; five years 10 1/4-11 1/4 per cent. Short-term rates are call for U.S. dollars and Japanese yen; others two days' notice.

## MONEY MARKETS

## A more optimistic note

Interest rates stabilised in early trading on the London money market yesterday, and then showed a softer tone as market sentiment improved as hopes grew that the exceptionally sharp rise in interest rates seen this month will be short lived.

Three-month interbank touched a peak of 14 1/4 per cent in nervous early trading, reflecting disappointment that sterling had not reacted more favourably to the latest increase in clearing bank base rates. The

month interbank finished at 13 1/4 per cent compared with 14 1/4 per cent on Monday. Discount houses buying rates for three-month bank bills were 13 1/4 per cent against 13 1/4 per cent on Monday.

The Bank of England forecast a market shortage of £200m in the morning, but changed this to £150m in the afternoon. Dealers showed some surprise that the authorities did not

appear to supply enough help on the day, giving assistance of only £20m.

Before lunch the Bank of England gave help of £40m by buying bills outright, through the Bank's tender, through £21m bank bills in band 2 (15-33 days maturity) at 13 1/4 per cent, and £22m bank bills in band 3 (34-63 days) at 13 1/4 per cent.

In the afternoon another £44m bills were purchased outright

in band 2 at 13 1/4 per cent, and the authorities provided late assistance of around £10m.

Bills maturing in official hands, repayment of late assistance by buying bills outright, through the Bank's tender, through £21m bank bills in band 2 (15-33 days maturity) at 13 1/4 per cent, and £22m bank bills in band 3 (34-63 days) at 13 1/4 per cent.

In the afternoon another £44m bills were purchased outright

## MONEY RATES

Jan. 29	Jan. 28	Jan. 27	Jan. 26	Jan. 25	Jan. 24
Overnight	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
One month	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Three months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Six months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Nine months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Twelve months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
15 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
18 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
21 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
24 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
27 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
30 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4

## LONDON MONEY RATES

Jan. 29	Jan. 28	Jan. 27	Jan. 26	Jan. 25	Jan. 24
Overnight	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
One month	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Three months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Six months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Nine months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Twelve months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
15 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
18 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
21 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
24 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
27 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
30 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4

## Discount Houses Deposit and Bill Rates

Jan. 29	Jan. 28	Jan. 27	Jan. 26	Jan. 25	Jan. 24
Overnight	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
One month	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Three months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Six months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Nine months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Twelve months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
15 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
18 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
21 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
24 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
27 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
30 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4

## FT LONDON INTERBANK FIXING

Jan. 29	Jan. 28	Jan. 27	Jan. 26	Jan. 25	Jan. 24
Overnight	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
One month	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Three months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Six months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Nine months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Twelve months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
15 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
18 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
21 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
24 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
27 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
30 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4

## ECGD Fixed Rate Export Finance IV: Average Rate of Interest period December 5 1984 to January 1 1985 (inclusive): 9.93 per cent. Local authorities and finance houses seven days' notice, others seven days' fixed. Finance House Base Rate (published by the Finance House Association): 10 per cent from January 1 1985. London and Scottish Clearing Bank Rates for lending from January 1 1985. Average under rates of clearing 11.024 per cent. Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month 14 1/4 per cent; one-month 14 1/4 per cent; three-month 14 1/4 per cent; six-month 14 1/4 per cent; nine-month 14 1/4 per cent; 12-month 14 1/4 per cent. Under £100,000 12 1/4 per cent from January 30. Deposits held under Series B 10 per cent. The rate for all deposits withdrawn for cash 8 per cent.

## FINANCIAL FUTURES

## Better tone

Sterling denominated interest rate contracts recovered from a nervous start on the London International Financial Futures market yesterday, but finished below the best levels of the day. A rally during the morning was prompted by an unsubstantiated rumour of Bank of England support for sterling when the pound rose above \$1.12, and although the market soon retreated as doubts grew about the intervention, the general mood was helped by reasonably encouraging comments from the Opec meeting in Geneva and rumours that all ministers had reached agreement. But once again there appeared to be little substance to this suggestion. After

## LONDON

Jan. 29	Jan. 28	Jan. 27	Jan. 26	Jan. 25	Jan. 24
Overnight	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
One month	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Three months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Six months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Nine months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
Twelve months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
15 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
18 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
21 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
24 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
27 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4
30 months	14 1/4	14 1/4	14 1/4	14 1/4	14 1/4

## CHICAGO

Est. March	88.60	—	—	87.72
Est. Volume	4,432 (5,983)	—	—	(6,776)
Previous day's open int.	7,268 (8,361)	—	—	—
20-YEAR 12% NOTIONAL GILT	£50,000	—	—	—
32nds of 100%	—	—	—	—
	Close	High	Low	Prev
March	102-08	102-16	101-15	101-22
June	102-14	102-14	101-29	101-24
Sept	105-28	—	—	105-04
Dec	105-17	—	—	104-27
March	105-06	—	—	104-16
Est. Volume	4,843 (6,181)	—	—	—
Previous day's open int.	6,571 (8,064)	—	—	—
Basic quote (clean cash price of 131%)	—	—	—	—







## FINANCIAL TIMES SURVEY

## Unlisted Securities Market

The junior stock market has developed beyond the most optimistic hopes and has established itself as the biggest source of equity capital for small businesses in the UK

## Boisterous youngster has come of age

By William Dawkins

THE Unlisted Securities Market was in its early days likened to a boisterous child.

That simile seemed apt enough for a market which was volatile, unpredictable, and was looked upon by the City as an excitable youngster with an uncertain future. But now the USM has a very different reputation.

All the major issuing houses have come to see it as a valuable opportunity to forge relationships with entrepreneurs who should become the important corporate clients of tomorrow.

The junior stock market has established itself as the biggest single source of equity capital for small businesses in the UK, and while it is still experiencing growing pains, it has developed beyond the Stock Exchange's most optimistic hopes.

Last year, a record 101 companies joined the USM, bringing the total to have been admitted to the market to 337, according to the Stock Exchange. That includes 42 companies which have graduated to a full listing, one of the most important functions set for the USM when it was created in November 1980.

Another six groups have been suspended, 11 have been taken over, seven have been reorganised and one quotation has been cancelled, leaving an end-of-1984 head-count of 270 USM quoted companies.

Despite the growing number of graduates to the full board, which wiped £600m off the USM's market capitalisation last year according to stockbrokers Hoare Govett, the total value of the USM in the past 12 months has grown by 22 per cent to £2.9bn.

Meanwhile, the pace at which young companies are tapping the market for funds is accelerating. Last year's newcomers raised £193.2m from their flotations, of which 56 per cent represented new money for their companies' development, with the rest going to existing shareholders and directors.

Existing companies raised another £68.4m from rights issues in 1984, bringing the grand total raised by USM companies to date to £731.7m, equivalent to a quarter of the USM's current market capitalisation.

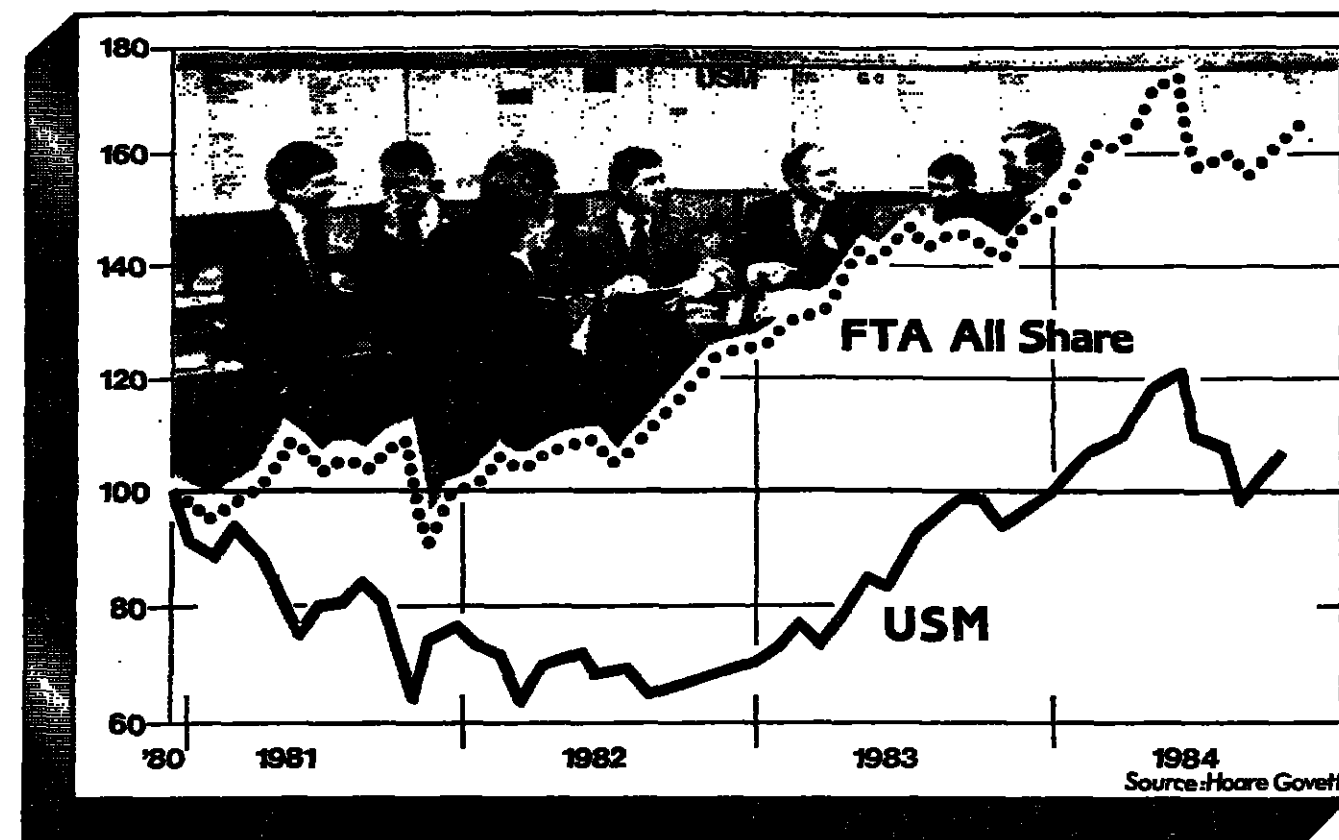
The USM owes its break-neck

expansion to the release of a pent-up demand for equity capital and an easier route to a flotation at a time when the economic and political climate is set fair for the growth of small businesses.

Before the USM's inception, young companies had been deterred from joining the full market by the high costs involved—currently around £80,000 for an offer for sale—and by the fact that they had to jeopardise their independence by releasing at least a quarter of their equity to the public.

As a result, an increasing number of companies turned to unofficial markets outside the SE's auspices, providing something of an embarrassment for the regulatory authorities.

By introducing less onerous reporting and advertising requirements, the USM has brought down issue costs in absolute terms to around £150,000 for a placing and £350,000 for an offer for sale, though as a proportion of the value of the shares being marketed—between 8 and 9 per cent—USM flotation costs are in line with those on the full market.



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Picture by Trevor Humphries USM index is that of Datastream.

Another attraction was that USM companies had only to release 10 per cent of their equity, although that still does not provide an absolute guarantee of independence, as the Twinlock office equipment group found to its cost when after attracting the attention of Acco World Corporation of the U.S. it was taken over in an agreed bid just over a year after its USM debut.

In practice, the average proportion of publicly available equity on the USM is 34 per cent, reflecting the extent to which companies have released more shares through rights issues and sponsors' attempts to avoid over-narrow markets.

Apart from fund-raising, other attractions of a USM flotation include an independent valuation of the company, the availability of quoted shares for acquisitions and employee incentive schemes and the prestige connected with public status.

Some companies would have found it impossible to raise finance from any other source. Micro Business Systems, for instance, Britain's largest independent distributor of business microcomputers, used £18m worth of its USM quoted shares to take over three companies in the year before it graduated to a full listing last September.

"People are deeply reluctant

to take shares in a private company, and not even the most sporting bank would have lent us that," says Mr Clive Richards, the group's chairman. He maintains that the mere fact of being quoted on the USM helped Micro Business Systems to win business.

"Junior computer companies like us have an untidy record of feast to famine. If you have the regular reporting discipline of a listing, it gives you more credibility to customers. At least they can look at your accounts every six months," he says.

Despite its catalogue of successes, the USM still exhibits some areas for concern. The market as a whole is ad-

mittedly less volatile than in its early days, when it was ill-served by its dependence on oil and computer-related shares, which made up almost half of the USM's value a year ago.

Oils now account for 13 per cent of the USM's capitalisation, with the computer sector taking another 20 per cent. They have been diminished by the disappearance to the full market of some of their largest constituents and by the growth of other sectors like public relations and design, with the arrival of companies like Valin Pollen, Addison Communications, and Craton Lodge and Knight.

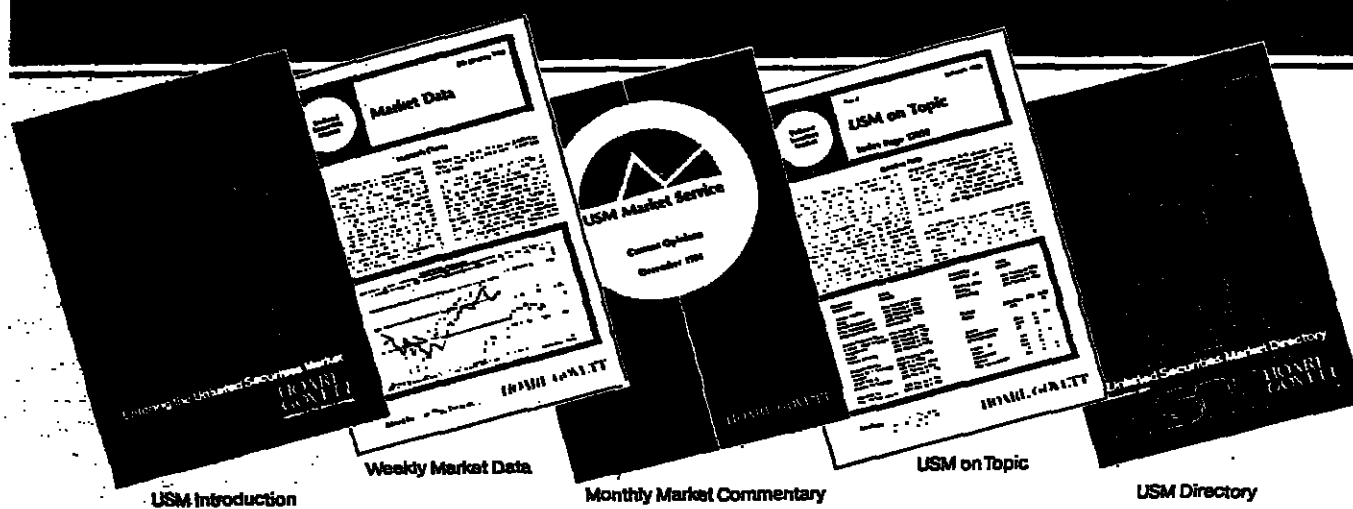
However, electricals have

also suffered a serious reverse. Fiercely competitive conditions in the microcomputer industry have brought a spate of disappointing results from groups like Acorn Computer, Memory Computer and Cifer.

The electrical sector's fall from favour was primarily responsible for dragging the Datastream USM leaders' index down from its May peak of 118.54 to 104.64 at the end of the year, just 6.71 points ahead of its January 1984 figure. Meanwhile, the volatility of

CONTINUED ON NEXT PAGE

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\* Peat, Marwick, Mitchell & Co. USM quarterly survey, October 1984.

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## Unlisted Securities Market 2

### The benefits of defining objectives

#### Achieving Quotation

WILLIAM DAWKINS

WHILE THE USM has succeeded in providing a relatively easy way for young companies to raise equity finance, they have certainly had to work hard for the privilege.

Few USM debutants appear to have had an entirely accurate idea of the volume of work and the costs they were letting themselves in for when they embarked on the long journey - anything between three and nine months - towards joining the junior stock market.

The average placing last year cost around £150,000, while the average offer for sale cost the companies involved a sobering £250,000. Professional advisers' fees have risen steeply in the last six months, provoking a rash of complaints from cost-conscious flotation candidates.

Accountants Touche Ross estimate that the average cost of a share placing - the most common method of entry to the USM - has risen by 20 per cent in the four years since the market opened. However, to put that in perspective, that increase is just three points ahead of the general inflation rate during the period.

These figures do not, of course, take account of the hidden costs of management time taken up in preparing for a USM float; and these can be considerable. One recent entrant, Hawtill Whiting, an engineering design consultancy, estimated that the 190 working days spent by its three directors and their own chartered accountant, in preparing for the market, cost the company almost £50,000. Professional fees came to £130,000.

The minimum entry requirement set by the Stock Exchange are not in themselves over-burdensome, though most sponsors do press for tougher conditions to protect themselves when staking their reputations on comparatively unknown com-

panies. The two most important requirements are:

● At least 10 per cent of the company's equity must be available to the public, as against 25 per cent on the full board. In practice, the average USM entrant is currently issuing more than 25 per cent, according to stockbrokers Hoare Goret. This reflects entrepreneurs' concern to get the best value from their high fees as well as sponsors' wishes to have more shares available to the public in the interests of preserving an active market in which they can pick up commission earnings.

● At least three years' audited and unqualified accounts must be provided, as against five on the full market. Start-up ventures with fully researched and costed projects are sometimes admitted. Apart from the senior management time involved, one key drawback of joining the USM is that the company might attract the attention of an unwelcome bidder if a high proportion of shares are sold. Moreover, the management could easily feel inhibited by its new responsibilities to shareholders and the continual scrutiny it will experience from investors, stockbroking analysts and the press.

Founding shareholders also need to consider how they will handle the potential hefty capital transfer tax liabilities they will incur should their shares reach a high value on the USM.

The key advantages of a flotation are that it is an easy way of getting an independent valuation of the company, while raising development capital for the business, and permitting directors and outside shareholders to cash in on years of hard work or risk-taking.

Many unquoted companies, incidentally, have found it easier to raise equity finance from private placings if they can offer shareholders the prospect of realising their potential profits at a USM flotation some time in the future.

Clearly, USM-quoted paper can be a useful currency for acquisitions, especially for small

companies with limited cash. Shares can also be offered to employees as an incentive.

Several groups have reported that a USM quotation has improved their standing with customers and suppliers, as well as their creditworthiness with bank lenders. By the same token, adverse publicity might otherwise be discreetly swept under the boardroom carpet.

And the preparation for a flotation can in itself be beneficial by forcing a company to define its objectives more clearly and by helping it to spot and overcome any management or structural weaknesses.

The first step towards a flotation is to select a team of professional advisers, which must include a reporting accountant - which might be your auditor - a solicitor, stockbroker, and possibly a merchant bank if your company is large or complex.

It is worth bearing in mind that a merchant bank's corporate advice can add between £25,000 and £75,000 or more to the issue costs.

As the USM has become more established, professional advisers have become increasingly aggressive in pitching for business.

Professionals' "beauty parades" have become a frequent occurrence, although the selection process sometimes works the other way as well. One worrying feature is that a number of companies are still being rejected by the first broker sponsor they approach only to turn up on the USM later under a less choosy firm's colours.

The next key decision is how much to raise and what method to use. More than 60 per cent of the companies to have joined the USM to date chose a placing, whereby the sponsoring stockbroker will sell the shares to the market through his own clients.

Stock Exchange rules demand that a quarter of the issue must be made available through the jobbers to the general public in the interests of maintaining a wide market.

Placings are subject to a 50m limit on the value of the shares being sold, and the candidate's market capitalisation is not expected to exceed £15m. Companies worth more than £15m or marketing over £5m worth of shares must join the market through an offer for sale, which may be by fixed price or by tender.

Under this method, all the shares being sold are advertised to the public direct. Hopeful investors apply on a form attached to the prospectus. Only 12 of the 101 companies which were admitted to the USM in 1984 joined through an offer for sale.

The cheapest way of getting on to the USM is through an introduction, which accounts for roughly a quarter of all USM flotations. The average cost is upwards of £50,000, though two companies, the brewers Eldridge Pope and Fuller Smith and

Turner, did achieve introductions for a mere £2,000.

This method is reserved for companies which already have at least 10 per cent of their equity in outside hands and are marketing no new shares. They do not have to publish a prospectus, the preparation of which is usually the biggest single element in the cost of going to the USM.

Once the prospectus has been drawn up and the SE's permission for a quotation sought, the most difficult aspect of going to the market is without doubt deciding on the price of the shares to be sold. Most sponsors like to build in a 10 to 15 per cent premium to stimulate investors' attention. Not surprisingly, the entrepreneurs prefer to give away as little as possible.

This can lead to often emotive, last-minute haggling between stockbrokers and their USM clients.

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## Coming of age

CONTINUED FROM  
PAGE 1

some individual shares has been exacerbated by their extremely limited marketability. A handful of buyers and sellers can produce dramatic price movements which often give an exaggerated or imperfect impression of a company's state of health.

One beneficiary of this trend has been the successful beauty care chain The Body Shop International, the USM's star performer of 1984. In the nine months since it joined the market last May, the group's stock, which can only be traded in parcels of 1,000 shares, shot up by 394 per cent to 470p, a staggering 130.6 times last year's earnings.

By the same token, investors in a thinly traded stock which runs into trouble will get the sensation of plunging down a precipice. An example is Adam Leisure, the Hazeigate-based distributor of hand-held electronic games which saw its share price more than halve within the space of a few days early last year when it announced that Christmas sales had fallen 50 per cent below budget. In the year to end-December, Adam's shares had declined by a sobering 84 per cent to 15p, just under two times 1983 earnings.

Another area for anxiety is the uncertain quality of some start-up ventures to have joined the USM. They are admitted under a rule which permits greenfields companies so long as they have a fully researched project using proven technology. Normally, entrants must possess a three-year trading record, as opposed to five years for a full listing.

With few exceptions, the USM's start-up ventures have received a dismal welcome from investors. Their plight is exemplified by Synterials, a Dutch producer of synthetic industrial materials which raised £20m last December in the USM's biggest ever fund-raising exercise.

Since then, the company has produced larger than expected losses, run into production problems and lost through ill health its technical director, who supplied the inspiration for its process.

Originally issued at 100p, the shares now languish at 33p, inviting the question of whether Synterials and companies like it would have fared better in the private venture capital market with a small band of expert investors ready to be involved in running the business.

Another area for concern has been the parallel growth of the over-the-counter market. While the OTC is only a fraction of the USM's size, it has thrived on the fact that OTC stocks qualify for tax relief under the Government's Business Expansion Scheme.

This incentive is denied to USM investors, and is believed to have been a factor in attracting a number of potential USM candidates to the OTC.

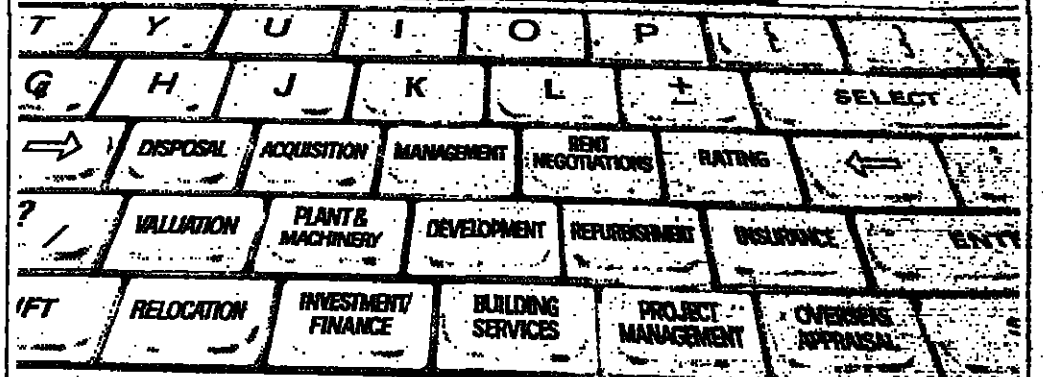
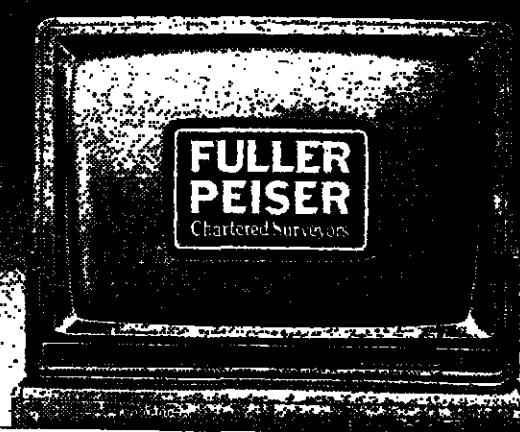
The SE authorities have long campaigned to have the tax treatment of the two markets equalised, but their pleas have fallen on deaf ears in Whitehall.

A final and important concern is that the USM has still not been tested in a severe bear market, although it held up surprisingly well when share prices in general took a dive early last summer.

Nonetheless, the junior market looks set to attract an increasing number of new companies in the year ahead, barring any serious reversal of general market sentiment. Tougher full listing requirements recently introduced by the European Community are expected to encourage more of the larger flotation candidates, which are undecided between the USM and a full quotation, to go for the junior market.

Meanwhile, the supply of smaller businesses eager for a quotation appears to be as generous as ever, even if some observers are anxious about their quality.

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## Unlisted Securities Market 3

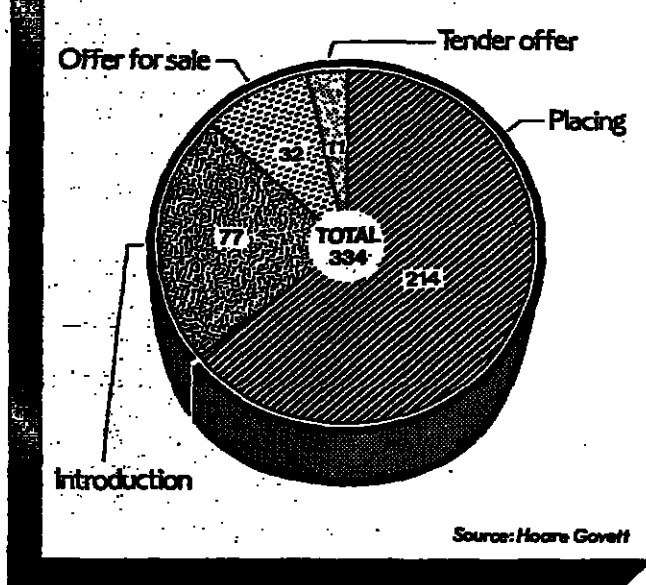
## Major statistics of the USM

## Major flotations of 1984

Company	Business	Market cap.	Date
Microvitec	Colour display monitors	£48.9m	May
North Sea and General Oil Investments	Oil exploration	£32.6m	March
Emax International	Oil and mineral exploration	£26.7m (£22.0m)	June
TDS Circuits	Multi-layer printed circuit boards	£26.6m	July
Access Satellite International	Movable scaffolding towers	£25.4m	November
Industrial Scotland Energy	Oil and gas exploration	£22.7m	August
Hunter Saphir	Fresh fruit and vegetables	£18.6m	June
Powerline International	Power supply equipment	£17m	March
Spectrum Group	Home computers, software and peripherals	£15m	June
CPS Computer Group	IBM distributor	£14.7m	March

Source: Datastream.

## MARKET ENTRY in the first four years



## USM Market analysis

AGGREGATED MARKET DATA			
Total capitalisation	£2,530m	Net tangible assets	£998m
Free capitalisation	£954m	Net debt	£117m
% free	34%	Ratios:	
Pre-tax ratio	15	NTA/market cap. %	35%
P/E ratio (actual)	19	Capital gearing	12%
Yield	2.4%	Income gearing	8%
		Acid ratio	1.0

MARKET BREAKDOWN BY ACTIVITY			
	Market capitalisation	%	No. of companies
Building materials	90	3	5
Construction	40	1	9
Electronics	516	18	33
Electricals	61	2	6
Engineering	43	2	9
Metals	13	1	5
Motors	15	1	3
Industrial Materials	102	4	4
Brewers	93	3	7
Food	116	4	10
Leisure	240	9	24
Publishing	31	1	4
Packaging	12	0	4
Stores	160	6	11
Textiles	9	0	3
Other consumer	40	1	7
Chemicals	33	1	6
Office equipment	36	1	4
Miscellaneous	274	13	51
Oils	359	13	15
Property	115	4	17
Miscellaneous financial	166	6	15
Other	23	1	2
Foreign	143	5	12
<b>TOTAL MARKET</b>	<b>2,530</b>	<b>100</b>	<b>266</b>

MARKET BREAKDOWN BY SIZE			
	Market capitalisation	%	No. of companies
Below £2.5m	66	2	42
£2.5m-£10.0m	765	27	140
£10.0m-£20.0m	737	28	53
Over £20.0m	1,262	48	31
<b>TOTAL MARKET</b>	<b>2,530</b>	<b>100</b>	<b>266</b>

Source: Hoare Govett

## Best and worst performers

Company	Price at January 1 1984 (or at issue)	Price at December 15 1984 (or at recent results)	Percentage gain
Body Shop	95	470	394
Valin Falloit	110	362	229
Microfilm Reprographics	53	170	218
Scantrol	78	195	154
French Connection	145	365	152
Michael Peters	97	245	152

WORST PERFORMERS			
	Price at January 1 1984 (or at issue)	Price at December 15 1984 (or at recent results)	Percentage fall
Adam Leisure	94	15	84
Cifer	121	21	83
Immediate Business Systems	115	34	71
SelectTV	32	10	69
Rula Resources	41	13	69

† New issues.

Source: Grieson Grant.

## Profile: TDS Circuits

## By Stefan Wagstyl

## Horizons widen following flotation

FEW ELECTRONICS companies are as modest about their product technology as T D S Circuits, one of Europe's largest manufacturers of complex printed circuit boards. Equally few can be as proud of their production techniques.

"We are not as product-

oriented as some companies," says Mr David Taylor, managing director, who founded the company in 1974 with his chairman, Mr Herbert Cann. "We are commodity producers. We need to have a very commercial approach."

Circuits, based in Blackburn, Lancashire, concentrates

on the more complex end of the printed circuit board market. The market overall falls into three segments—single-sided boards where components are connected on one side only (most commonly used in consumer electronics), plated through the hole (PTH) boards in which

components appear on both sides (used, for example, in computers), and multi-layer boards where circuits can be made across several layers (used in aerospace and military electronics and in computers).

Circuits began by making only PTH boards, mostly on small batches, but in 1979 deliberately moved into multi-layer boards, which now account for 80 per cent of output. The company has about 10 per cent of the UK multi-layer board market, with GEC and Plessey as major customers.

The new market was not easily won. Profits for the years to the end of February 1981 and 1982, which were in any case depressed by recession, suffered from the heavy start-up costs of making multi-layer boards.

Pre-tax profits recovered strongly from £180,000 in 1982 to £1.4m a year later, and rose to £1.7m on sales of £7.8m in 1984. The current year is stronger still: in the first half of 1984-85 Circuits made £1.3m.

The company is continuing to invest heavily in production technology to maintain efficiency and expand output.

Work is starting soon on a new factory, which, when ready in two years' time, should allow Circuits to increase output by almost three times.

Extra capital

A major reason for last year's flotation on the USM was the need to raise extra capital—£1.4m from the issue—to fund this ambitious programme.

Trading margins are high—25 per cent last year—but TDS believes that the high cost of developing production capacity restrains new companies from entering the field.

"We have the advantage because we are already here," says Mr Taylor. The chief competitors in an expanding UK market are subsidiaries of Standard Telephones and Cables, Italy's Olivetti, France's Matra and an independent company, Prestwick Circuits.

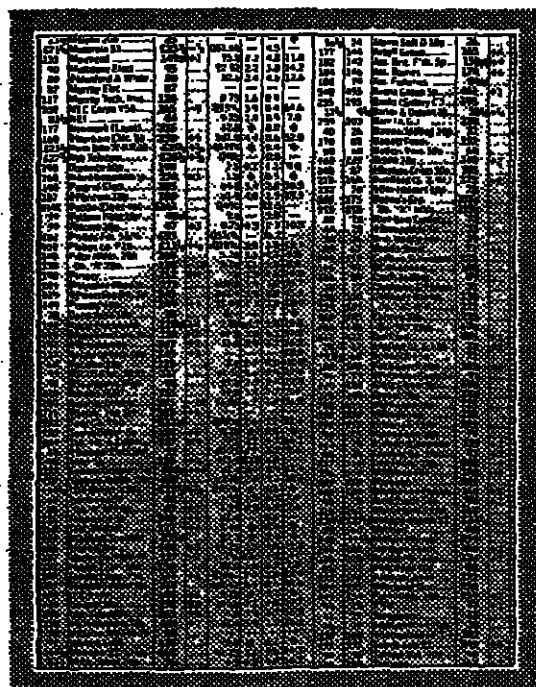
Mr Taylor believes that the USM flotation has given the company wider horizons. "We can take a broader view and look more at long-term plans."

He has some advice for companies planning a flotation. "If you are going public prepare for it for at least three years ahead, or five years, which is what we did, and get good advisers."

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## Unlisted Securities Market 4

## Share marketability an advantage

## Moving to a Full Listing

ALISON HOGAN

TO MOVE or not to move is a question often pondered by companies quoted on the Unlisted Securities Market. About one in five of those which have joined the USM since it opened for business in November 1980, have not been taken over, have made the transition to a full listing.

A rush of companies took the leap to the upper house in the months before Christmas ahead of the proposed changes to the Stock Exchange "Yellow Book." This is a list of regulations governing the admission of securities to listing. The companies feared that the new rules would be more onerous, probably making the process of transition more costly.

The new rules have now been published, taking effect from the beginning of 1985. There are a number of major changes which are being carefully studied by financial advisers to assess their consequences. On balance they feel the changes favour neither market strongly. Small, but acquisitive companies may prefer a USM quotation. Listed companies now have to publish full listing particulars on any occasion when they plan a merger, takeover, or acquisition involving the issue of 10 per cent or more

new equity.

The Stock Exchange says the principal purpose of the USM is to "provide a formal regulated market designed to meet the needs of those smaller, less mature, companies unlikely to apply for listing."

It accepts that "some companies, as they expand, would see particular benefits for them in moving up to a listing but there is no obligation to make the transition."

There are a number of reasons for and against seeking a listing. Some companies have quite openly chosen the USM as a cheap way of raising the main market, moving up as soon as the minimum stay of a year has passed.

Hambros Bank, which has advised 10 companies on seeking a quotation, has surveyed the companies that have made the transition and found that 30 per cent of these chose to join the full list at the time of the announcement of a major acquisition. A further 30 per cent decided to go up for reasons of greater share marketability.

Most companies choose the time of the announcement of their annual results to make the move, probably resulting in savings in professional fees. The results are invariably good, and often accompanied by plans for general expansion.

The main market is perceived to be many as enhancing the status of a company in the eyes of investors and business customers and suppliers. Companies have usually tried

to capitalise on their publicity attached to the move. A full listing may attract the attention of some institutional fund managers who usually have only a very small proportion of funds earmarked for USM stocks.

On the other hand, companies who expect the mere fact of a listing to open lots of institutional doors, will probably be disappointed. Most of them will be expected to go through a trial period until reaching a certain market value and stage of maturity.

Aidcom International, the design, market research and high-tech consultancy group, moved up to a full listing in April last year. Monty White, Aidcom's finance director, said that the transition proved to be pretty painless. "It had always been part of the plan," he said.

He thought the status of a full listing probably assisted the company in establishing its credibility in the U.S., where in June it completed its largest acquisition to date with the purchase of San Francisco-based S & O Consultants.

The marketability of a company's shares is probably an important consideration for most companies. Hambros Bank lists the following advantages which are thought to flow from increased marketability:

- Greater stability in the share price.
- Greater acceptability of shares as consideration for acquisitions.
- Greater ability of major shareholders to sell shares with

a less damaging effect on the share price.

• Arguably a removal from susceptibility to a downturn which might occur in the USM if economic circumstances were to change so as to make more vulnerable smaller, less mature companies, typical of the junior market.

Given the high ratings which many USM companies have enjoyed (though more recent issues have tended to show a more conservative valuation), the effect of the transition on a company's share price is often a burning consideration.

Most price earnings ratios decline after some time on the main market. There are technical factors behind the stratospheric ratings of some USM companies, including very narrow markets caused by the limited number of shares available.

Also, some companies, still very young, can often have a tremendous burst in profits and turnover on small fixed costs. This tends to show as the com-

pany plans the next stage of expansion, and working capital requirements increase.

Hambros Bank examined the performance of a number of stocks which had graduated to the Official List and found that a company's share price, when it moved to the main market, was, on average, no more than the relevant USM price. This seemed to be the case both while companies were on the USM and following their transition.

Robert Chalk of Hambros Bank believes that the transition in itself does not affect a particular company's share price, but in a good number of instances, the reason for the transition does have an effect.

"I feel that the investor is really looking to base his view of a company's share price on the quality of management, industry and its own likely profit achievements within that industry. Therefore this view is unlikely to be swayed merely by a transition to the full listing," he says.

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## Accountant's Role

ALISON HOGAN

HUNDREDS of people have contacted chartered accountants Touche Ross since they began their advertising campaign urging businesses contemplating a USM quotation to "get in touch."

With over 300 paper millionaires created through the USM it is perhaps not surprising that "some small businesses look to the USM as a sort of moneybox and think they can just go to the market next week," according to Mr John Roques, partner in charge of the London office of Touche Ross.

Only a small proportion of

the people who contact Touche Ross and other firms of accountants will actually end up going to the assistance of the accountants can give them in developing their business and of the range of alternative sources of finance available in addition to seeking a flotation.

The USM has proved a useful publicity tool for the accountants' services. Peat Marwick Mitchell was one of the first of the big firms to recognise its potential as a source of business with the result that by the end of 1984 it had acted as reporting accountants to 56 USM flotations, more than double the number of any other firm.

Mr Alan Comber, Peat's USM partner, said that it is difficult to estimate how many clients have emerged because of the USM. "Many would have come through the door anyway, but conceivably some are coming slightly earlier," he added.

Their aspirations often prove overly ambitious, however. Most firms conduct an intensive business review of a prospective client to assess their financial needs and stage of development. Touche Ross and Deloitte, Haskins & Sells say that their initial consultation is free.

"The preliminary review highlights the critical factors which need to be serviced," according to Mr Comber.

The accountants prefer to get involved with a client up to two or three years before a flotation. It gives them and the company plenty of time to get balance sheets in order, to disentangle family shareholdings and taxation problems, and to settle any outstanding litigation, however minor.

The accountancy profession has always done a certain amount of corporate finance work in addition to undertaking its traditional audit and advisory functions. It is taking advantage of the new less regulated atmosphere to market such services more aggressively, sometimes in competition with other financial advisers, such as stockbrokers and merchant banks as well as other accountancy firms.

Mr Roques believes that the profession is at "the relative early stages of a trend for medium-sized firms to have their initial contacts for corporate financial advice with accountants."

He feels that the emergence of a number of large securities houses, as a result of the financial services revolution, could lead many merchant banks to concentrate on larger companies and international business, leaving the smaller end of the market for the accountancy profession to handle.

Most of the large firms of accountants have a nucleus of staff who concentrate on USM work. Mr Comber at Peat Marwick Mitchell makes sure that all USM work done by the firm is of the same standard and approach and he keeps the firm's information base up to date.

"But if a job goes into the Birmingham office, it is done exclusively out of Birmingham," he said.

At Deloitte, Haskins & Sells, six partners concentrate on flotations, both for the USM and the main market. Mr Graham Cole, the national USM partner, says that when a regional office has a client who wants to come to the USM, he goes through the

## The unlisted securities market flotations by reporting accountants

To December 31 1984

## REPORTING ACCOUNTANT

	Number of flotations
Peat Marwick	56
Touche Ross	25
Arthur Andersen	24
Ernst and Whinney	22
Deloitte Haskins and Sells	21
Arthur Young McClelland Moores	17
Price Waterhouse	15
Coppers and Lybrand	15
Thomson McIntosh	14
Binder Hamlyn	14
Thornton Baker	12
Stey Hayward	10
Robson Rhodes	8
Spicer and Pegler	7
Finnie Ross Allfields	6
Fannell, Kerr, Forster	6
Dearden Farrow	4
Neville Russell	4
P. D. Leach	4
Cape and Dalglish	3
Saffery Champness	2
Berke Cohen Fine	2
Dias Goodman	2
Dutton Moore	2
Farmiloe and Co.	2
Hacker Young	2
Hazelwood and Co.	2
Hodgson Harris	2
Jones and Partners	2
Kidsons	2
Leigh Carr	2
Longerstaffs	2
Lovewell Blake	2
Stammes Cohen Fine	2
Others	58

Source: Peat Marwick.

requirements with them "but it is the local guy who will actually sit with the client through the whole process." This way, the expertise is concentrated into a few hours. "The client should not have to pay for learning time," said Mr Cole.

The firm's USM experts usually get more closely involved if they are invited later in the process, either by another sponsor, to act as reporting accountants to a company. Preparations for a flotation may be quite well advanced and the accountants then have a "sharp learning curve," according to Mr Patrick Harrex, financial investigations manager at Spicer and Pegler.

Their main task is the preparation of the long form report, to check tax clearances and to prepare certain placing documents.

Accountancy firms have been known to turn down appointments as reporting accountants if they cannot then keep the client and become its full time auditor. Most firms, however, manage to come to an amicable arrangement by which the company retains its original auditor, but can call upon the reporting accountant, usually a much larger firm, for specific advice when necessary.

In time, if a company is expanding, it will tend to outgrow its small local firm, seeking increasing industry specialist advice or overseas representation.

Some accountants have reported cases of "low balling" when a firm quotes an unrealistically low price to win a job, though none will officially own up to such a practice.

The practice does not appear to be widespread, but usually occurs on a regional basis when a firm is weakly represented and wants to build up its client base. Mr Harrex said that although price competition is keen, the type of service a firm offers is more often the deciding factor. "The client wants someone who understands the business and will offer a direct personal service."

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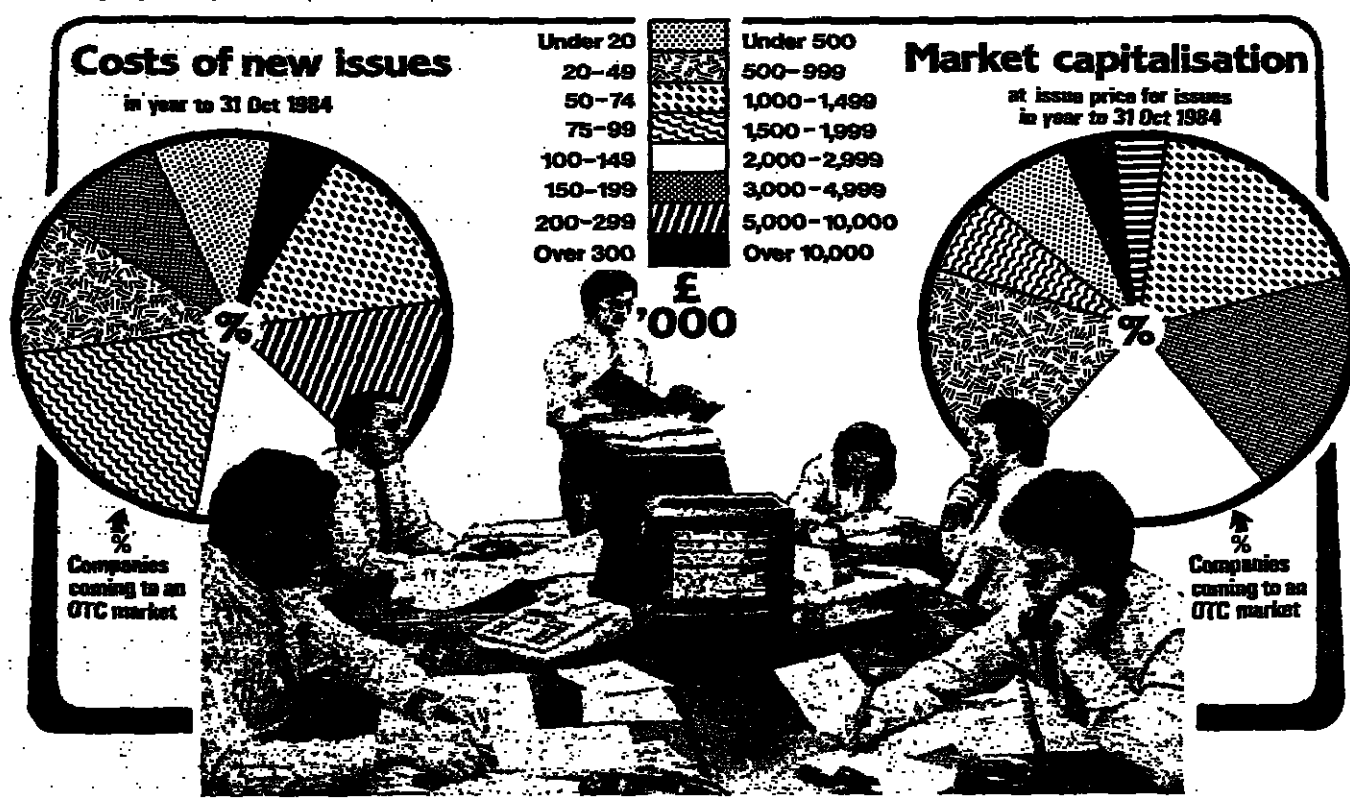
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## Unlisted Securities Market 5



## USM growth matched by that of its smaller rival

## Over-the-Counter Market

WILLIAM DAWKINS

THE USM's breakneck growth of the past four years has been matched by that of its smaller rival, the over-the-counter market.

The OTC, a collection of telephone share markets conducted outside the stock exchange, has more than doubled in size in the past year to 18 months. There are no centrally collected figures—regulation is one of the OTC's greatest problems—but it is estimated that the 15 leading market makers quote prices in more than 150 companies' shares.

Five years ago, there was only one OTC market maker, Granville and Co, quoting prices in about 20 stocks.

Granville alone — formerly known as M. J. H. Nightingale — was by the end of last year quoting prices in 95 companies' shares with a total capitalisation of £200m, making it the leading OTC dealer in terms of market value.

Harvard Securities, which makes a market in 97 OTC stocks with a joint capitalisation of £100m, estimates that the entire OTC is currently valued at about £575m, making it about a fifth of the size of the USM.

Last year, Harvard reckoned that 43 companies joined the OTC, raising £33m in new money in the process, while existing companies raised £5m in rights issues.

One reason for the OTC's growth is that it makes investment in high-risk ventures a comparatively cheap gamble.

OTC investments generally

qualify for Business Expansion Scheme relief, under which individuals may deduct the price paid for their shares from their total taxable income so long as they hold onto the shares for five years.

USM investors are denied this incentive. The Stock Exchange has long campaigned to have the two markets' tax treatment brought into line, but the Treasury has so far appeared unsympathetic.

The OTC's expansion is also believed by some observers to have been assisted by the rigorous requirements of a USM quotation. It has certainly proved a useful outlet for green-field companies which have

are simply too small to justify the costs of a USM quote. Spicer and Pegler estimate that 40 per cent of the OTC's new issues in the year to last October were floated on a market value of £2m to £5m. The average market capitalisation for USM companies is £10.6m.

That is not to say, however, that the entire OTC consists of small, highly speculative propositions. Indeed, it had its origins through Granville as a way for long established family companies to market shares, while at the same time protecting their independence by releasing less equity than would be required by the SE.

They include groups like

flotation candidates is very similar to that demanded from their USM counterparts.

Patrick Harrex, financial investigations manager for Spicer and Pegler, agrees: "In our practical experience, there is no difference in approach," he maintains.

The real difference is in the conduct of the aftermarket, where the OTC has been criticised for the conflicts of interest involved when an issuing house is frequently the only broker and jobber in a company's shares, as well as being an investor. Most OTC stocks are quoted by a single dealer, although a handful of the more popular ones are dealt in by up to four market makers.

Conflicts of interest could easily arise if a dealer is keen to get rid of a long line of stock in bearish times, and there are fears that the OTC's dual capacity dealers could be much more vulnerable to collapse in poor market conditions than a conventional single capacity stockbroker.

Moreover, the OTC has given rise to concern that many of its stocks are trading at artificial prices because the markets for them are so thin. Spicer and Pegler estimates that about 10 per cent of the OTC's prices are quoted "basis" — the price at which the dealer would trade if any stock was available.

OTC market makers have attempted to regulate themselves, but have been hampered by a failure to agree on the shape of an overall regulatory body. Four dealers belong to the British Institute of Dealers in Securities (Bids), which was set up in November 1983 to set up a self-regulatory standards and to provide a compensation fund.

Another four belong to the National Association of Security Dealers and Investment Managers (Nasdim), which is recognised by the Department of Trade as a self-regulatory body. But it has a very wide membership and does not, like Bids, purely to police the OTC. The rest belong to neither.

Nasdim and Bids have been discussing a possible merger for some time, but for the present the regulation of the OTC is uncertain.

Meanwhile, the boundaries between the OTC and the USM are beginning to blur, just as traditional distinctions in the rest of the City are beginning to fade in the face of the revolution taking place in the securities industry.

Last June, Granville took a 29.9 per cent stake in R. A. Coleman, a small Welsh stockbroker, with plans to move to full ownership when SE rules permit. Coleman is using the purchase cash to establish a London office specialising in small quoted companies.

Hill Woolgar, one of the four dealers quoted on the OTC, is expected to seek a USM quotation shortly, and Harvard created a furore towards the end of last year when it opened an independent market in 13 USM shares. It currently offers prices in 60 USM stocks and plans to cover the entire unlisted market before 1985 is out.

Spicer and Pegler warns: "There must be a risk that share prices may be depressed if large scale disposals take place and that opportunist predators may seek to take advantage of the opportunity to build up substantial stakes in BES companies." That prospect alone should give the regulatory authorities something to chew on.

One reason for the OTC's success is that it makes investment in high-risk ventures a comparatively cheap gamble

begun to trade and have been denied a USM quotation because their records are too short to qualify for standard admission, but too long to let them get in as start-up ventures.

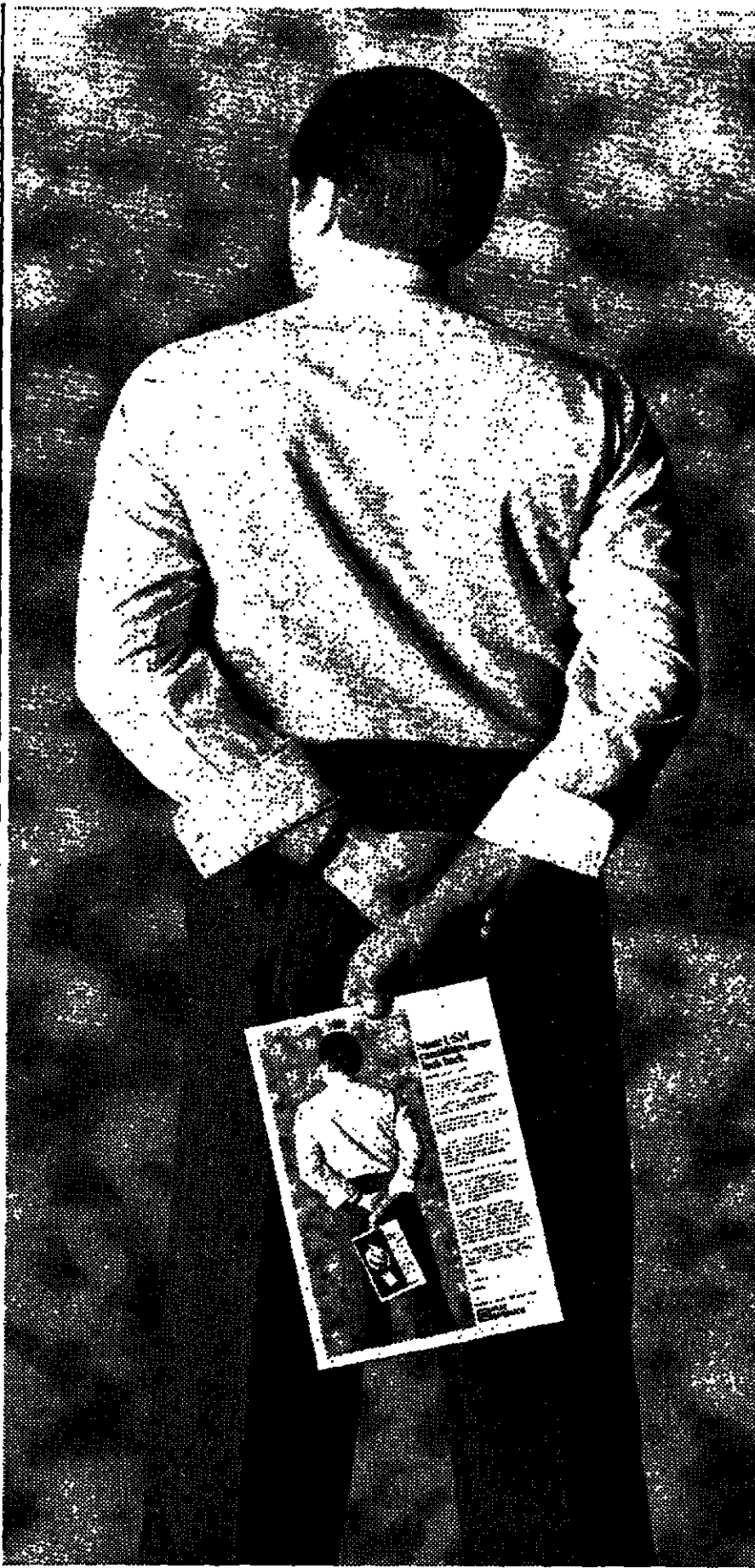
Accountants Spicer and Pegler point out in a study of the OTC to be published shortly: "Licensed dealers have shown a readiness to take to the OTC markets companies who are unable to meet the criteria set by the SE for admission to listing or to the USM. Thus, a number of the companies to have obtained OTC quotations recently will be seen to have either very short or volatile trading records."

The OTC has also provided an opening for companies which

James Burrough, the distillers, Bardon Hill quarries, and the Airsprung bedding company. The average proportion of equity available to the public on Granville's market is around 5 per cent, as against 34 per cent on the USM.

Unlike most of the rest of the OTC, Granville will only deal as an agent on a matched bargain basis, and does not hold its own line of stock as a principal. And in most cases, it is instructed by the company not to permit share purchases by investors who may be hostile to the group's management.

OTC market makers would argue fiercely that the quality of information and depth of disclosure required from OTC



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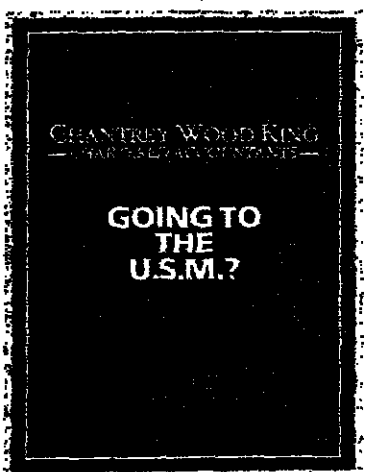
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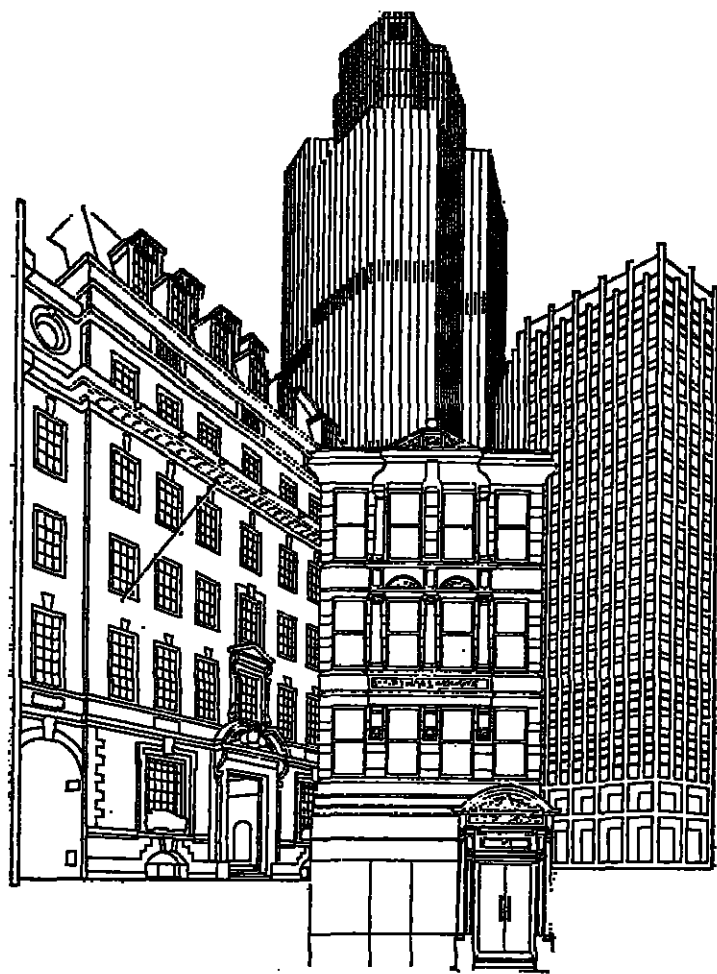
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## Unlisted Securities Market 6

# Ultimate seal of approval

### Stockbrokers and Merchant Banks

STEFAN WAGSTYL

BY THE traditional standards of the City, the Unlisted Securities Market last year won the ultimate seal of approval.

In bringing Ramco Oil Services to the market in April, J. Henry Schroder Wagg became the last of the blue-blood merchant banks to sponsor a USM issue.

It was a perhaps belated step down the path which its rivals among London's top merchant banks had followed up to two years earlier—Kleinwort Benson, Lazards, Hill Samis & S. Warburg all sponsored USM issues in 1982, and Morgan Grenfell joined the bandwagon in 1983.

But the presence of these leading City names on the lists of USM sponsors is far more than a mere sign of the market's improving reputation. It is recognition of the fact that the USM has become—at least to some merchant banks—an important and growing source of new business. And it is a sign that these banks are prepared to battle with each other and with other issuing houses for their share of the emergent quoted companies.

In each case, what attracts the big merchant banks is not the fees to be earned handling the new issue, which may typically be £75,000, but the much larger profits to be won from the client's subsequent corporate activities—like rights issues and acquisitions.

Mr Nicholas Jones, a Schroder's director says: "We are looking for new and excit-

ing companies which are going to be some of the winners of stock market in ten years' time."

Among former USM companies which have been particularly active on the takeover trail are Aldcom, Tunstall Telecom, Oceanic Group, and Micro Focus, all of which are now fully-listed.

However, not all merchant banks have been equally energetic or equally successful in their USM activities. Among its earliest and most consistent supporters, as the accompanying table shows, have been County Bank, part of National Westminster Bank, top of the list with 13 USM companies to its name, and Barclays Merchant Bank, with eight.

In each case, according to Mr Alan Comber, partner with accountants Peat Marwick, the link with a clearing bank was important as a source of contacts with business communities across the country.

One rival merchant banker said the example of County Bank in particular had led others, notably Hambros Bank, to devote more effort to the USM.

Overall, the merchant banks and issuing houses have brought to the market about one third of the 337 companies to join the USM since it was started in 1980—more than have been launched by stockbrokers acting alone.

This proportion has not changed significantly over time, although larger merchant banks have gradually won business from the non-stockbroking issuing houses.

However, the banks and issuing houses (counted together) have succeeded in gaining a growing proportion of bigger companies coming to market—precisely those which might be expected to generate the most corporate activity, and fees, in the future.

Of companies with an initial market capitalisation of £15m or more, banks and issuing houses sponsored 5 out of 20 in 1980-82, and 19 out of 34 in 1983-84—an increase from 25 to 56 per cent of the total.

What advantage—if any—do the USM companies themselves get from increased attention from the merchant banks? Companies are obliged to have a broker—the question is whether it is worth paying an extra £30,000 to £40,000 for merchant bank services in a typical placing which is already costing say £120,000 in fees to brokers, accountants, lawyers and others.

Merchant bankers argue that these extra fees will often be more than covered by the higher price they claim they can get for a company's shares, given the wider range of funds in which they can place shares.

"We certainly can give extra placing power and we may get a better price," says Mr Jones of Schroder's.

The banks also argue that it is worthwhile getting a second team of professionals, in addition to the brokers, to examine and value a company. Mr Simon Metcalf, a director of County Bank, says that in preparing a flotation a broker may face potential conflicts of interest because his "prime duty" is to his investing clients and not to the candidate company.

Brokers might answer that the banks are in a similar position since they must also consider the interests of funds where the shares are to be placed.

Mr David Cohen, a partner with Simon and Coates, argues that cost is the main reason for not using a merchant bank. "If money were no object I would be delighted to work with a quality merchant bank."

For companies capitalised at

up to £20m it is no disadvantage to come to the market solely with a stockbroker, he says. However, for "mammoth companies" worth £25m and more, a merchant bank would be "a prerequisite."

There are contrasts between the number of issues which individual brokers have brought to the market on their own, and the number in which merchant banks or issuing houses have been involved.

Phillips and Drew, which had brought 22 companies to the USM by the end of last year (more than any other broker), worked with merchant banks on about half of these flotations.

Two other fairly prolific USM brokers, Capel-Cure Myers and Grieverson Grant, have also frequently worked with the banks. But Simon and Coates, a pioneer of the USM among brokers, was involved with merchant banks in just two of its 16 flotations. And a smaller but energetic USM broker, Marjett and Addenbrooke, has carried out all of its nine flotations unaided.

These differences are not a simple measure of a broker's enthusiasm in advising clients on whether to involve a bank. Frequently, it is the merchant bank which has taken the initiative and brought the business to the broker.

Mr Cohen does accept that a working relationship with a merchant bank is important to a young quoted company. But he argues that these links can be best and most cheaply formed after the flotation.

"Merchant banks have expertise par excellence in corporate development where stockbrokers do not compete."

But the acid test of a flotation is the market's reception of the new company. A sponsor's worth is impossible to measure directly since the share price is influenced by so many different factors.

One leading fund manager said that it was always reassuring to find that a merchant bank as well as a stockbroker was putting its name behind the issue. "It adds a little something," he said.

But another manager said that for his fund the name of a "quality broker" was as good as that of a "quality merchant bank."

### The unlisted securities market flotations by sponsors

To December 31 1982

SPONSOR	Number of flotations
Simon and Coates	16
County Bank	12
Phillips and Drew	12
Capel Cure Myers	11
Marjett and Addenbrooke	9
Hambros Bank	8
Laurence Trust	8
Laing and Crutchbank	8
Samuel Montagu	8
Schaverien	8
Smith Keen Cutler	8
Barclays Merchant Bank	8
Fielding Newson-Smith	7
Kleinwort Benson	7
Le Mare Martin	7
Tring Hall	7
Hill Samuel	7
Stock Beech	7
Greene	6
L. Messel	6
Charterhouse Capital	6
Leafield Bank	6
de Zoete and Bevan	6
Hoare Gowett	6
Grieverson Grant	6
James Capel	6
E. E. Savory Mills	4
Albert E. Sharpe	4
Cooke Lumsden	4
Herdson Moss	4
Rowe Budd	4
Hill Woodger	4
Northcote	4
Quilter Goodham	4
Henderson Crutchwell	4
Farmore Gordon	3
Statham Duff Stoop	3
Sheppard and Chase	3
Richens Harrison	3
Montagu, Loch, Stanley	3
Strauss Turnbull	3
Henry Aschbacher	3
Leafield Bank	3
Morgan Grenfell	3
Lloyds Bank International	3
Allied Irish Investment Bank	3
Singer and Friedlander	3
Coal Gilbert and Sankley	3
A. J. Belcher	3
Charlton Seal	3
Foster and Smithwhite	2
Morgan	2
Noble Grosvenor	2
Standard Chartered Bank	2
Antony Gibbs and Sons	2
Arbuthnot Leatham	2
London Venture Capital	2
Market	2
Alken Hume	2
Others	51

Source: First Monday.

### Bluebird joins the market

LATEST recruit to the USM is Bluebird Toys. Currently British Toy Producer of the Year, the company was started in 1981 by chairman Mr Torquill Norman (ex chief executive of Berwick Timpco). Over the last four years, turnover has increased from £1.25m to £5.5m. Mr Norman is pictured right with Mr Tom Charnock, managing director on his left.



Profile: Valin Pollen

By Stefan Wagstyl

## Climbing high after take-off

WHEN Valin Pollen International joined the Unlisted Securities Market a year ago it was criticised in some staid corners of the City for its glossy and expensive picture-packed prospectus.

"It was a little bit over the top," says Mr Reg Valin, who founded the advertising and public relations agency with Mr Richard Pollen.

But even VPI's critics would admit that the company has lived up to its extravagant opening gesture. The shares floated at 110p shot up 229 per cent over 1984.

VPI has been a leader in a sector of high-flying stocks—if computer and electronics companies were the USM darlings of previous years, 1984 was the year of advertising, public relations and marketing groups.

Besides VPI, Addison Communications, KLP, and Craton Lodge and Knight all joined the USM last year.

But the strong performance of these shares inevitably raises the question: whether they will fall from grace in the same way as many of the USM's computer companies did last year. And if the sector declines, how will Valin Pollen fare?

The strongest point in VPI's favour is its track record. This month it announced pre-tax profits up 119 per cent to £603,000, easily beating a flotation forecast of £425,000. Profits have at least doubled every year since the company was formed in 1979 when Mr Valin and Mr Pollen resigned from their top executive jobs at the Charles Harker agency.

"We feel we are keeping up with what the market expects of us," said Mr Valin.

VPI primarily serves companies wanting to improve their image in the financial and commercial communities, both in the UK and abroad. It does very little consumer-related work.

Mr Valin believes that the agency's strength lies in offering a broad range of services: public relations, advertising, design and research.

No other UK agency is so broadly-based, says Mr Valin. The competition is fragmented, divided between separate advertising, public relations and design agencies.

To cope with the constant increase in business—turnover has risen from £825,000 in 1979-80 to £17.8m last year—Valin Pollen has rapidly expanded staff to 145 people. Mr Valin says that recruitment is one of his most important concerns—a point borne out by the fact that it took VPI eight months to find a creative director, before making the appointment two weeks ago.

VPI is also on the look-out for further acquisitions following the purchase of McAvoy Wreford and Associates, a corporate communications agency, in September. It is particularly anxious to expand abroad, especially in the U.S.

Like other groups which thrive on publicity, VPI has derived considerable benefits from joining the USM. Mr Valin says that the public launch has helped to attract new business

and new staff.

More directly, it brought VPI some of its biggest contracts—public relations work for the flotation of Reuters and for the forthcoming privatisation of British Airways.

Mr Valin also hopes that the flotation will allow VPI to fund future acquisitions with shares. But he admits that the high price/earnings multiple of VPI shares might pose problems. Potential investors would clearly be more attracted to the shares if they were not so highly rated.

Valin Pollen is riding the crest of a wave of demand from large companies for publicity services as they become increasingly aware of how they can support their share prices by improving communications with investors.

It has been relatively straightforward for Valin Pollen to demonstrate success since share prices have risen steadily, with breaks, over the past five years.

The agency has yet to be tested against unfavourable market conditions. But Mr Valin says that it would be as important for clients to maintain their links with investors in a bear market as in a bull market.

Parts of the agency's work, for example, the production of annual reports would be largely unaffected, he says. And if necessary Valin Pollen could trim costs and recruitment as other companies might.

Mr Neil Blackley, of James Capel the agency's stockbroker, believes that the successful example of Valin Pollen and others will tempt more companies in advertising, public relations and related fields to come to the market, particularly if they are keen to make acquisitions.

More choice would allow investors to become more selective within the sector, said Mr Blackley.

Under these conditions some agencies would inevitably find it difficult to defend themselves from takeovers, while others might become predatory.

For the successful agencies there is the example of Saatchi and Saatchi to follow—in the eight years since its flotation its market capitalisation has grown to £352m.

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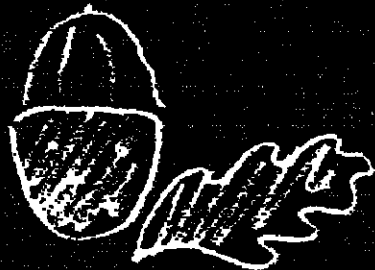
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Unlisted Securities Market

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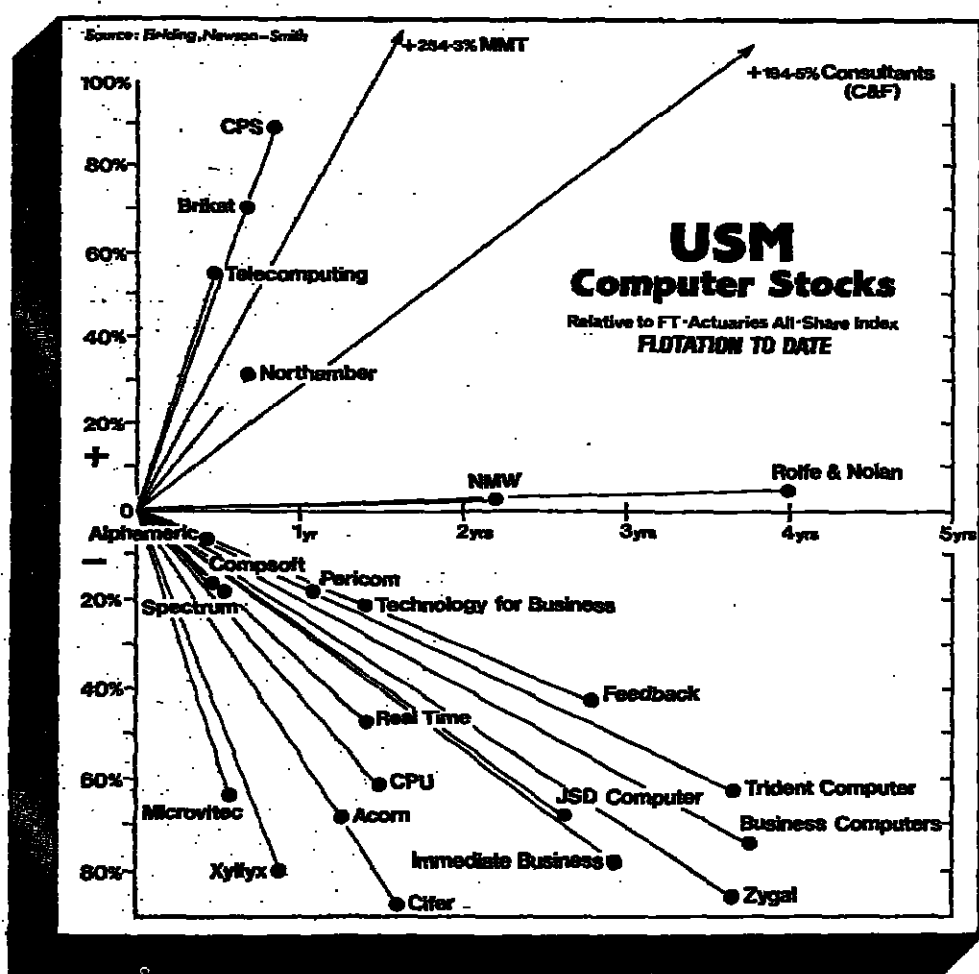
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## Unlisted Securities Market 7



Profile: Cifer

By Terry Garrett

## Brought to its knees

THE TALE of Cifer is a USM classic. Like others it launched itself on the market fair oozing glamour and heady growth prospects only to find all too quickly that time by size and spread of products had it — and the share price — on its knees.

In less than two years Cifer has been transformed from a fashionable investment into a loss maker with a bombed out share price. At the end of last year it appeared in Fielding, Newson-Smith's review of USM computer stocks among an investment list as a "kamikaze cocktail of recovery and start-up situations."

Cifer, a manufacturer of microcomputers and video terminals, joined the swelling ranks of USM high-technology stocks in May 1983. Some 400,000 shares were offered to an enthusiastic public by way of a public offering at a minimum price of 115p.

On the forecast profit of £1.3m, the shares were rated on a prospective p/e of just under 25. The net proceeds of £2.2m, were to be used to expand the company's manufacturing capacity and develop a new generation of products.

Within three months Cifer's stock was changing hands at 185p. Cifer achieved its profits forecast to September but with very little to spare because the final quarter had been hit by an unforeseen downturn in the microcomputer market and a shortage of key components. Market enthusiasm waned.

The next blow to investor confidence came in March when the chairman, Mr Oliver Newman, told shareholders in his annual report that the costs of opening the South Wales manufacturing plant and introducing new products would "eliminate profits" in the first half of 1984-85.

In the event the 28 weeks to April 14 1984 produced a staggering £977,000 loss and the dividend that had been forecast at the time of the offer for sale was cancelled.

What had gone wrong? Demand for its mature existing eight-bit micro collapsed in line with the market before its new products, which had been hit by technical problems, could fill the gap. In six months Cifer had spent £400,000 on product develop-

ment and £300,000 on establishing a factory in Cwmbran without the support of consistent sales.

The company's borrowings had climbed to almost two-thirds of shareholders' funds and the share price had collapsed to 65p—little more than a third of its value less than a year before. The shares were destined to drop as low as 10p before they could find a foothold.

Management changes had compounded the problems, though the disruptions had not stopped. Last June, two weeks after opening the Welsh factory, Cifer made 128 of its staff redundant at its plant in Melksham, Wiltshire.

Within weeks there was a top management reshuffle with Mr Terry Cosgrove who was managing director, stepping down to a new post as commercial director.

The redundancies were made in an effort to quickly bring down overheads and return the company to the black. But losses are expected to have continued into the second half. Outside forecasts of a £1m loss for the full year to last September can be found. The new management team is in place, however, and if it can get its latest products flowing from the factories in sufficient quantities Cifer could bounce back in the current year. Confidence, however, has been shaken and the share price has been flat on its back for months.

With hindsight Cifer's problems seem fairly obvious and possibly could have been avoided, at least in part. As a lesson for investors, the whole saga pinpoints the vulnerability of small companies in developing markets which are relying heavily on one product, even if there are a number of derivatives.

Companies, such as Cifer, can be hit by a "coincidence of problems" which they simply lack the financial muscle and, perhaps, management, ability to cope with.

Size, of course, is crucial and with a healthy revenue flow most companies can ride out temporary hiccups in a market or product development. Yet possibly even more critical is to have a fair spread of products.

Acorn, for example, which must be one of the best known names on the market with its BBC computers stumbled badly when it tried to enter the U.S. market. Despite its size, Acorn is still essentially a one product company and that marketing mistake cost the group heavily in terms of stock market rating.

The market generally is now more alive to the potential pitfalls facing computer hardware companies which have risen rapidly on the back of a highly successful specialised product. Once the hardware companies dominated the list of fashionable high-tech investments but that has perceptibly changed.

Software operations (generally with a broader base) and the distribution companies are attracting more attention. While they may not offer such spectacular growth potential as some hardware businesses they do reward shareholders with more stability.

Yet a few recent entrants among the software companies are displaying the same dubious qualities as some troubled hardware houses—success built almost exclusively on one or two product lines.

When those products reach the end of their market cycle problems are bound to arise unless the next generation of products is firmly in place. And Cifer is a fine example of a company which thought it had that next generation firm in its grasp but alas, had not.

## Amount of research a problem for brokers

THE USM roll call looks set to lengthen considerably in 1985 with brokers and accountants reporting a higher than ever number of companies being nursed in the wings for a flotation within the year.

As the market grows in size and apparent stability, and attracts more investors, it poses a problem for stockbrokers. How many companies should they research and into what depth? Are there enough clients interested to justify the cost of research?

Hoare Govett, has probably embraced the USM with greatest enthusiasm among stockbroking firms. It set up its USM service towards the end of 1983 with the aim of providing a general service which would include an in depth study of a number of stocks; the publication of a director (now annual) providing information on all unlisted companies; and a weekly USM review which includes a comment on the week's performance of the market with price changes and statistical information.

The firm later extended its service to Topic so that clients can call up information on their screens. Hoare Govett now provides a critique of all new prospectuses with a general comment on new issues.

The information is printed from time to time for reference purposes. A detailed database has been built up and this is of assistance both to investors in determining trends, and to its corporate finance department in planning a new flotation.

Grieverson Grant has built up a special USM service which seeks to provide clients with a regular review of new issues and results. The pace at which the market is growing is leading the firm to review its coverage and look for ways of following the burgeoning number of stocks.

As well as providing an overall picture of the market we are expanding the analytical side, and the number of in-depth reviews of stocks," said Isabel Unsworth of Grieverson.

The firm already gives detailed coverage of oil stocks on the USM and Rule 163. Such specialist coverage will gradually be extended to other sectors, which might include oil services, retailing and breweries.

Simon & Coates is another stockbroker which has established a reputation for sound advice on the USM, though its approach has been different to Hoare Govett. It has concentrated on the electrical sector, but as a new issue sponsor and as a market researcher.

"We have thought of extending our coverage, but it is a question of cost effectiveness," said Mike Whitaker, a partner at Simon & Coates.

The average levels of trading in established USM stocks is low and for small amounts because of the size of the companies. Such dealing that there is tends to be done through the company's brokers, thus limiting the amount of business available to other firms. By concentrating on electrical stocks, Simon & Coates has managed to build a healthy business, both in bringing new companies to the market and in the marketing of their shares.

The small investor still plays a relatively small part in the USM. Institutional investors account for the bulk of the business so stockbrokers address themselves mainly to institutional needs.

Hoare Govett, one of the larger corporate brokers decided it was a sector that should not be neglected. "There is a climate of greater awareness of smaller companies and their needs," said Geoff Douglas of Hoare Govett. The firm, for instance, would be short-sighted to ignore a sector which includes some of the growth companies for the future.

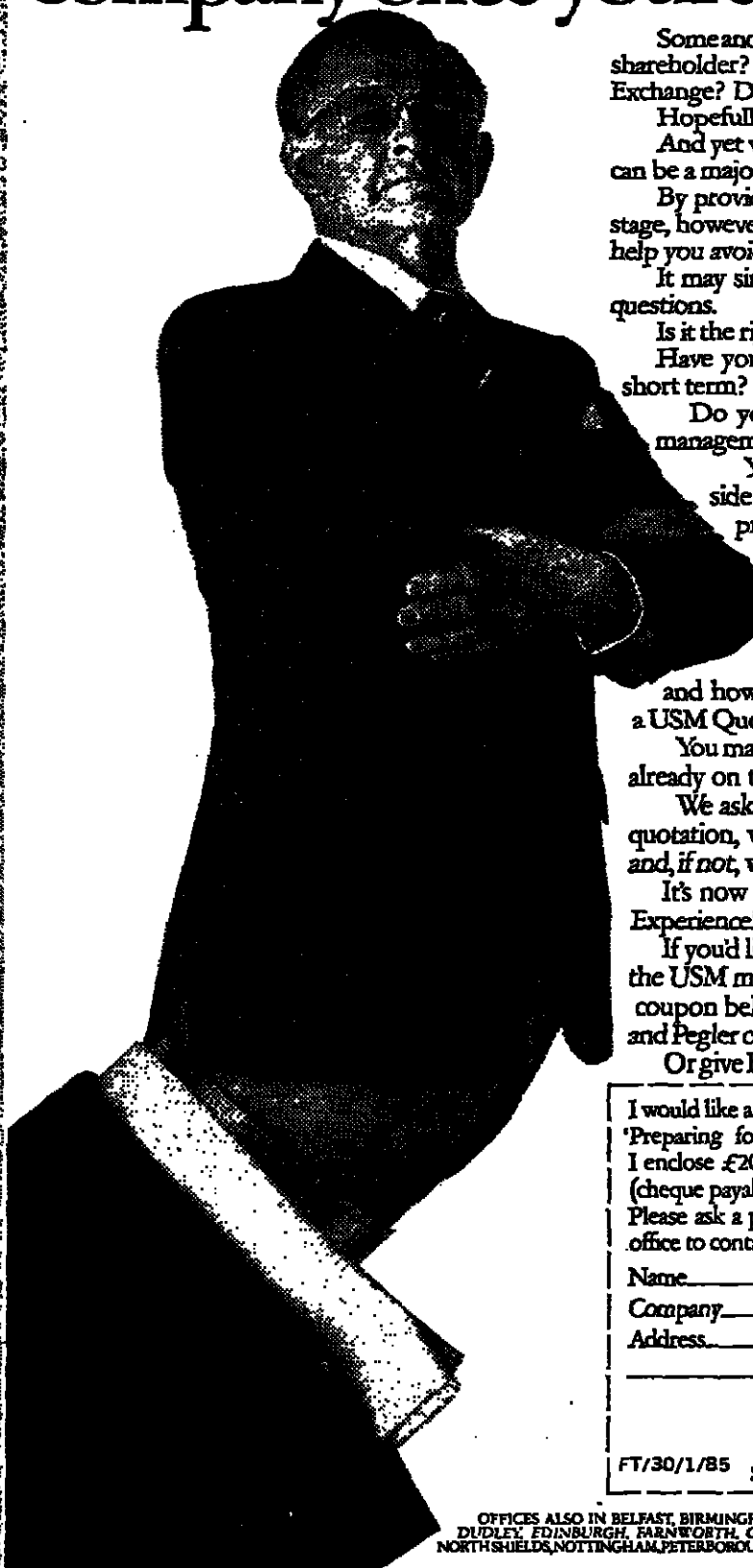
There are a few specific USM based unit trust funds, from Britannia Arrow, Ivory and Sime, and Temple Bar Fund Managers. There are others which concentrate on smaller companies, not limited to the USM. For this reason, James Capel decided to base its research more broadly on small companies which fitted certain criteria.

"We look for companies with good prospects of above average earnings per share potential or management turnaround situations—not cyclical situations," said Neil Blackley of James Capel. The firm also tries to cover certain "niche" sectors such as marketing, advertising and public relations.

There will always be a limit to the depth of research available on USM stocks, reflecting the limited volume of trading which most of them generate. The market has established itself sufficiently, however, to win the attention of some larger stockbroking firms which aim to provide a comprehensive service to clients.

Alison Hogan

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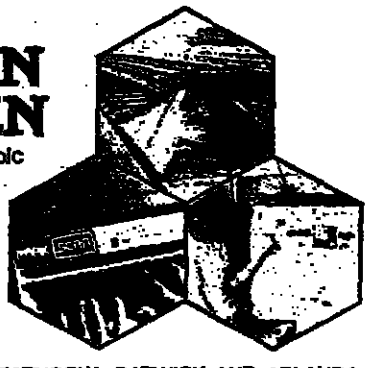
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## Unlisted Securities Market 8

### Fewer hammering at the door

#### Start-up Ventures

WILLIAM DAWKINS

THERE ARE signs that the USM's somewhat racy image is fading into respectability.

The fact that it had acquired such a reputation in the first place owes much to the exotic band of start-up ventures which have been attracted to the junior stock market. They include concerns as diverse as a Welsh gold mine, a three-dimensional camera maker, a group which turns rubbish into energy, and a creator of synthetic protein.

Yet the rate at which so-called greenfields companies are coming to the USM appears to be falling steeply. It has been well over six months since a start-up last knocked on the Stock Exchange's door, and that was when Applied Holographics, a producer of high-speed hologram copiers, a Welsh gold mine, a three-dimensional camera maker, joined the USM within a week of each other last June.

Normally, USM entrants must have at least three years' audited accounts behind them to qualify for a quotation. However, companies with a very short trading record or no record at all are sometimes admitted.

The SE's rules say that such companies "would be expected to show that funds were required to finance a project or product which could be shown

to be fully researched and costed, and where the expected time-scale before income started was not unduly protracted."

Companies which have progressed beyond the research stage and have started to exploit commercially their new projects will find it very difficult to gain admission to the USM unless they can show a three-year trading record.

One reason for the decline in the number of greenfields companies joining the USM might be that professional advisers are increasingly realising that a public flotation is not necessarily the most appropriate way to raise money for such ventures. The SE is also concerned about the uncertain quality of some of the start-ups which have joined the junior market.

Another deterrent to unquoted greenfields ventures considering a USM flotation is the rough reception which investors have accorded to currently quoted start-ups. The shares of ten out of the 13 greenfields ventures on the USM were trading at below their issue prices at the time of writing.

Investors' patience has been sorely tried by a rash of rights issues, persistent losses and simmering management problems.

The problems encountered by the USM's start-ups in the past year include a surprise £2.35m cash call by Immediate Business Systems, a portable billing equipment maker; the resignation of the technical director of Synterials, the developer of synthetic industrial materials; serious trading problems at

Applied Botanicals, the potplant producer; the disappearance into private ownership of Airship Industries; and most recently, an acrimonious battle in the High Court between the board of Hobson and their managing director.

Their problems point right to the heart of the most sensitive aspect of the task which the USM's creators set for it: to make it easier for young companies to join the stock market without reducing standards to the point at which its own reputation and investors' interests would be jeopardised.

But in spite of the USM start-up ventures' rocky record, most observers would agree that the SE got the balance right. After all, it would be surprising if a community of almost 340 companies did not produce a few duds, and the greenfields are not the only high risk propositions on the stock market.

However, their fate does invite the question of why businesses which are similarly long on hope and short on profits are generally getting a warmer reception from the UK's burgeoning private venture capital markets.

One answer is that private venture capital investors can broadly afford to take a more robust attitude to risk. For a start, they are likely to get in at a lower price, and start-ups raising cash through private placings have tended recently to achieve lower earnings multiples than they might have expected on the USM.

And if the project qualifies for Business Expansion Scheme tax relief—an incentive denied to USM investors—private

shareholders will be locked in for five years on pain of losing their tax breaks, helping to ensure a stable investor base for the company.

Moreover, institutional investors tend to feel happier when the problems which most greenfield companies will inevitably encounter in their early years can be quietly solved behind closed doors, and without attracting the unwelcome glare of publicity which is usually cast on struggling USM start-ups.

Private investors are also less exposed than public ones to the risk that the value of their shares will be knocked down by a surprise announcement.

The market in most USM start-up companies' shares is so restricted that it is not worth stockbrokers' while to devote much research to them. As a result, unforeseen and poorly understood hitches can have an exaggerated effect on share prices.

The SE's disclosure requirements can also be a drawback for greenfields companies, especially when sensitive negotiations have to be made public. One venture admits to having lost an important contract because it was obliged to make a public statement about the uncompleted deal following an unusual movement in its share price.

On the other hand, the same company has also collected £8m from USM investors in rights issues. Says the chairman: "For us, you could say it has been a bit of a love-hate relationship with the USM."

## Swelling ranks of millionaires

### Striking it Rich

TERRY GARRETT

THE millionaires' club they call it. And not surprisingly for the advent of the USM four years ago has probably done more to swell the exclusive ranks of this country's multi-millionaires than all the newspaper binges or gaming tables in London's swish nightspots put together.

According to accountants Touche Ross, who keep a close watch on the market, by the end of last year 322 millionaires had been created by bringing their companies to the USM. Some individuals have achieved spectacular sums. For example, a few eyebrows were raised when John Aspinall and Sir James Goldsmith raised £5m between them when they floated the Aspinalls gaming club on the market.

Acorn, which manufactures the BBC microcomputers, has made very rich men out of Herman Hauser and Chris Curry. At the height of Acorn's stock market fortunes last year Herman Hauser's stake in the company was worth in excess of £100m.

Since then Acorn has fallen from grace in the market's eyes and the shares have taken quite a mauling. That highlights a significant feature of many of the new generation of millionaires. Much of their wealth is more apparent than real.

Their wealth in large part is the shares they hold in their companies—shares that they are unlikely or unwilling to sell in large numbers. And share prices can be notoriously volatile, especially among some of the smaller USM companies. There are those directors who are in and out of the "millionaires club" like yo-yos as the value of their share certificates goes up and down.

Figures from Geoffrey Douglas, the USM guru at stockbrokers Hoare, show that the average amount of equity

issued to the public at the time of flotation is 25 per cent. The average free equity in quoted USM companies is 34 per cent. The difference suggests that after the initial new issue directors then gradually sell small parcels of stock.

But a more likely reason is that USM companies use their quoted paper to make acquisitions, thus diluting the founders' investments and creating more free capital.

Selling of shares by the founders, other than the initial money raised on flotation, is actually quite rare. But of course bearing in mind that all these companies have come along in the last four years most of the new millionaires have not worked their way through the first lump sum yet.

Investors, whether private individuals or institutions, tend to have mixed feelings about the amount of shares sold by the directors. Most like to see a package of new shares, raising money for the company, and existing shares from the founders at the time of the new issue.

Of course, not all companies need a cash injection, but still it seems surprising that directors who are busy raising money for themselves cannot see opportunities in raising money for their company to accelerate its growth. If the market believes that the founders are doing little more than cashing in a large number of chips while the going is good the issue is not going to attract much of a response.

But after that initial fund raising most investors prefer the founders to keep hold of their equity stakes. It displays a sense of confidence in, and commitment to, the company which gives some comfort to outside shareholders.

Of course any determined selling by major shareholders inside the company would be interpreted sourly in the market and the share price could easily slip into free fall.

Indeed many investors, especially institutions running USM funds, expect to see the



holdings of leading personalities in the companies they backing to be locked in, at least for a year after flotation.

Sponsors often insist that the directors sell no more shares for a year after the initial new issue. In some cases the directors are committed for far longer, especially in service companies where the main assets of the business are so often its people.

Not that the handcuffs cannot be broken on the odd occasion. Take the case of Synterials, which came to the market just over a year ago as one of the largest ever fund raising exercises on the USM—four fifth of the capital went on sale raising £20m.

Sales by the company, which is based upon making industrial components from synthetic materials, proved disappointing, but the real blow to the share price came last September when Mr Ken Hoppel, the US inventor who developed the company's process, resigned due to ill-health.

Despite his agreement to retain shares in the company until the end of 1985 he was allowed to sell his remaining interest, amounting to just 2.68 per cent.

Equally there are a large number of USM companies which the investing institutions would be more than willing to see the directors make available some more shares. The USM is notorious for thinly traded shares, and stock in well respected companies is rarely easy to pick up at sensible

prices. It is with these companies where the City welcomes a few more shares from the directors. Renishaw, a maker of sensitive measuring equipment, is a case in point. When the directors sold their entire entitlement to last October's one for ten rights issue, the City was happy to take up the extra stock.

If there is a message for the paper millionaires it is that the market will quite cheerfully turn some of that paper into hard cash as long as the company appears to be progressing and that the flow of shares is controlled in a sensible fashion. And if there is a criticism it is that some of those businessmen were in too much of a hurry to join the club. The USM's list of failures and dud performers is littered with companies which came to the market too soon.

Instead of joining the USM some of these companies should have considered tapping the plethora of venture and development capitalists who are more willing to live with an erratic performance in early operations. And there is no share price or small investors to worry about.

But, of course, venture capitalists are not so free and easy with earnings multiples in the high twenties as stock market investors and that means the founders have to part with more shares for less cash. That cramps the potential later on for getting a good seat in the millionaires' club.

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